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The Washington Monthly

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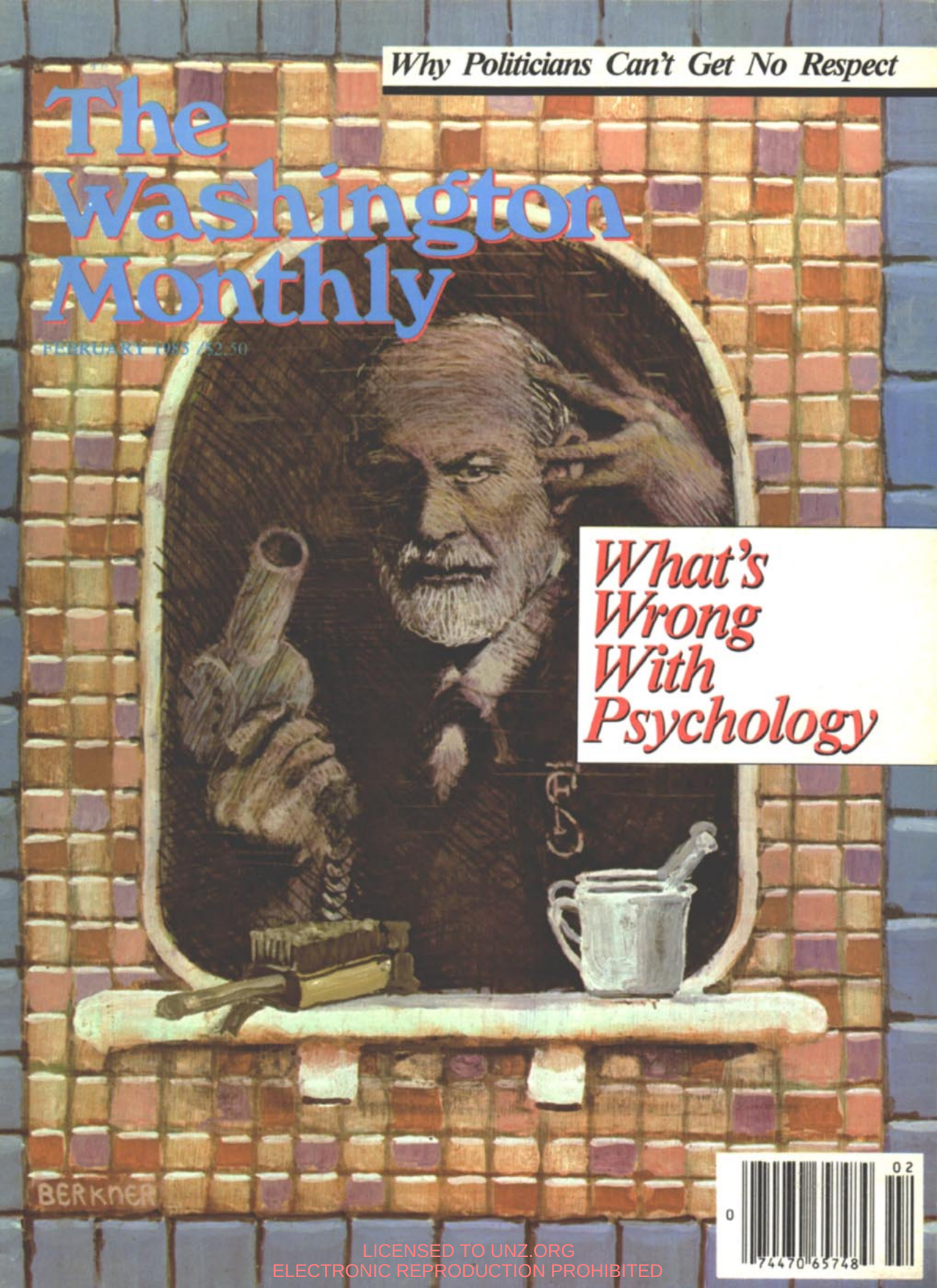

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LETTERS

That ole factory o' mine

You write in the December "Tilting at Windmills" that you found the November issue of the Monthly "a gem." The only flaw you could find was an unanswered letter, etc. I hope that by this time one of your staff has pointed out a couple of smelly items in the James Clark piece ["Bovine Balloons and the Odiferous Option"].

Start with the title, in both the table of contents and on page 24. Where did any editor ever find *odiferous*? Then try the first paragraph on page 25. How do you like the *olefactory*?

JOSEPH G. FOSTER
Mifflinburg, Pennsylvania

Day Care Dissent

As a long-time subscriber and card-carrying neoliberal, I have been amazed and saddened by your stand against working parents and day care. Your series of articles on the subject, culminating in the December feature "Ending Nine-to-Five Neglect of Our Children," ["The Part-Time Solution," Deborah Baldwin; "Why Parents Think They Can't Stay Home," Philip Keisling] begs the most important question of all: whether constant dependence on one parent is really good for the *child*.

The only evidence you have ever offered on this point was an anecdote about children in a large day care center who spent all day pining for their mothers. Those children were the victims of mass-production day care, and I felt for them. But their sad situation hardly proves that all kinds of day care harm children. Just ask my four-year-old son, who has been spending his weekdays in a day-care home with eight other youngsters and three adults since he was six months old. He and his playmates are more inquisitive, friendlier and more self-confident than the stay-at-homes down the block. While most of them are still clutching Mommy's skirt, Eric is exploring the world.

Parents who love their children don't want to monopolize and smother them; they want them to grow and thrive. Today students of childhood are finding that constant parental attention is needed for the child's first six months. Isolation with a single parent after this period may actually hamper a child's social development.

The best solution to the problem of child care is not to condemn all day care, but to encourage the right *kind* of day care: small groups of children supervised by concerned professionals. Your unthinking equation of day care with neglect feeds the selfishness of parents who believe that smothering their children is good for them, and unjustly faults parents who have carefully chosen a day-care setting to benefit their children. Worst of all, it distracts public attention from the real need for better day care.

DAVID J. ZIMNY
Lansing, Michigan

Phillip Keisling's slap at young parents working instead of staying home with their kids does us all a tremendous disservice. It is the most selective reading of the facts I've seen in a long time.

With the uninformed smugness of a zealot, Keisling cites downward trends in office productivity and suggests that if young people worked harder, they wouldn't have to labor longer hours than their parents did. Then, he berates us for giving in to norms that require up-and-coming professionals to work long hours to get ahead. He even implies that young women should buck peer pressures to aspire to prestigious jobs.

Yet these moral revelations are based mainly on a superficial comparison of incomes of couples aged 25 to 34 in 1983 and 1957. According to Keisling, real incomes for this group are 25 percent higher than they were in 1957, hence, young working couples must be too selfish to give up their second incomes to raise families. This analysis overlooks a whole raft of indicators to the contrary. For example, the average after-tax income of a young couple has actually fallen three percent since the early 1960s, even though there are more than three times as many two-earner households. Higher payroll levies alone have sopped up three-quarters of any real income growth.

In addition, since young families have high housing demands, their living standards are closely tied to housing costs—and the real cost of a house has nearly doubled since 1970. During this same period, however, after-tax incomes for all households headed by a person aged 25-34 declined an amazing 27 percent, with the result that single-earner families have been squeezed out of the housing market. Whereas in 1970 a family with an income 26 percent below the median could afford to buy the median home, by 1984, it needed an income 29 percent above the median.

While competition for jobs and housing among the numerous "baby-boom" generation has increased young couples' needs for second incomes, public policies have also played a key role. Deficits have raised interest rates and exacerbated the housing problem. And low confidence in Social Security and Medicare has led young workers to set aside more reserves for retirement than their parents ever did.

Today's young workers were in big trouble well before their parents' generation began accumulating national debt at a rate of $200 billion per year. To suggest that they are both better off and more selfish than their parents only perpetuates the unfortunate stereotype

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that blinds society to the need to worry about the futures of people in this age group.

PAUL S. HEWITT
Washington, D.C.

Paul Hewitt is president of Americans for Generational Equity.

Phil Keisling's article in December's issue is just brilliant. I bet the feminist ideologues would like to strangle him for so smoothly cutting through all the bramble bushes they have carefully created in women's minds why careers should come first.

CONNAUGHT MARSHNER
Washington, D.C.

Progressive pronouns

I enjoy your publication each month, but I'm concerned by your apparently unthinking use of sexist terminology. A particularly egregious example cropped up in December's "Tilting at Windmills" column, in an item on the training of Peace Corps volunteers. "If HE was that kind of volunteer—and that's what we quickly learned HE should be trained to be—HE could make far more friends for HIMSELF and HIS country than HE would by propagandizing. . . ."

The remedy in this case is simple: substitute the gender-neutral plural—"they". . ."themselves". . ."their country." This way the sentence avoids the archaic and literally inaccurate connotations of the gender-specific "he."

Obviously this is not a major quibble. But it seems to me that those of us laboring in the vineyards of progressive journalism have an obligation to pay attention to such details: if we don't make an effort to consolidate nonsexist usage, who will?

FRED FISKE
Syracuse, New York

Fred Fiske is editorial page editor of the Syracuse Post-Standard.

Early retirement

One of the more disheartening items in Gregg Easterbrook's article on the DIVAD antiaircraft weapon botch ["Why DIVAD Won't Die," November] is his remark that he promises "not to write on the military again." He is mistaken if he thinks his readers—other than those in the Pentagon—are sick of his good labors on behalf of the taxpayers and national defense.

I write as someone who has a son in the Navy and who is concerned about the risk of Mr. Easterbrook's talents being set aside. I recall the case of a neighbor through whose lawn our municipal officials chose to lay a sewer which would serve an apartment complex their pals in the investment world intended to build in violation of traditional flood-plain zoning. She was furious about being billed $35 a foot for an interceptor sewer that would not serve her at all, but declared: "You can't fight city hall." I admonished her: "Maybe you can't always beat city hall, but you can always fight 'em."

The fourth estate is best represented by newsmen of Mr. Easterbrook's tenacity. I hope that, if his surrender statement was serious, Mr. Easterbrook's compatriots at *The Washington Monthly* will thrash him back to his senses. My son aboard his submarine joins me in this sentiment.

P. B. SEYMOUR
Milwaukee, Wisconsin

Statustician

"The Case of the Missing Middle Class: Money Madness in Manhattan" (December) was on point. Walter Shapiro reports, "In Washington our social position was based on what we did, whom we knew, and what parties we were invited to" (p. 45). I grant that this is different from a social cachet based on cash, but is it truly any better a basis?

MARILYN MACHLOWITZ
New York, New York

I had no trouble understanding why Walter Shapiro had writer's block in trying to deliver on his promise to his friends at *The Washington Monthly* to write "a personal essay on the financial and personal reverberations of moving to Manhattan after 12 years in Washington."

Shapiro proudly says he writes about politics for *Newsweek*, and his wife, Meryl, is a television journalist. He may write about politics, but he and his wife appear to think only about status. He *should* have gone into advertising. Does Shapiro have any idea how fragile is the First Amendment and how badly we need political writers who are consumed with informing the public?

If Shapiro feels shamed on New York's social ladder, let him cast a huffy eye at me. I teach journalism at a public community college in downtown Oakland. Our newsroom bulletin board features articles that chart the slightest incursion on press freedom. Our students view a free press as the last hope for an informed public that will one day right the inequities that have spawned a forgotten class. (We revel in naivete.)

Shapiro should give up the pretense of being a journalist and just go after the cash. I have many a qualified journalism student here in Oakland who would love to write about politics for *Newsweek*. And he or she would not be distracted by New York's fashionable upper West Side.

I suspect that Shapiro began with a healthy regard for his role in helping to uphold the Bill of Rights. But

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it seems that the tempting search for status has swallowed his soul.

BURT DRAGIN
Oakland, California

Burt Dragin teaches journalism at Laney College.

Why I fly

In December's "Tilting at Windmills" you took to task those of us who prefer to fly to New York City rather than take the train. I object. During the last ten years I have averaged at least one trip per month to the Big Apple. I have traveled by plane and train, at various times of day, in all types of weather. My experience tilts strongly toward air transportation.

I can leave my home in northwest Washington at 6:30 a.m., park at National Airport, catch the 7:00 shuttle, and arrive in midtown Manhattan for a 9:00 meeting. Approximately one-quarter of the time I will be delayed. Half of these delays will be brief. In most other cases I will be able to telephone my apologies and the recipient of my apology will "understand" that I am a victim of The Eastern Megalopolis Transportation System.

Alternatively, I can order a taxi the night before, hope it arrives at 6:30 to take me to Union Station to catch a 7:00 Metroliner, which will shake and rock so badly that I will have a headache from trying to read my *Wall Street Journal* by the time I am fighting for a taxi on the street outside of Penn Station at 10:15 a.m., trying to make a 10:30 meeting. Once again, I will be delayed about one-quarter of the time. But when my train is delayed, I am trapped without a telephone. And, even if I do succeed in contacting my meeting partners, they will not "understand" what I am doing on a railroad siding in Wilmington, Delaware.

In nonrush hours, my speed record from 20th and L St. N.W. to mid-town Manhattan is one hour and 50 minutes by air. My fastest office-to-office time on the train is five hours and ten minutes. On a round-trip basis this is a six-hour difference.

ANTHONY J. HOPE
Washington, D.C.

Corresponding with the dead

I was a bit chagrined to have one of our departmental notices to a client quoted in "Tidbits and Outrages" in your December issue. You were apparently chiding us for the wording of a cancellation of benefits notice sent to a deceased client.

Admittedly, the idea of notifying clients that their benefits were canceled because of their reported deaths appears ghoulish at first glance. There are, however, sound reasons for such notices beyond the fact they are required by federal regulations. In the event the

THE WASHINGTON MONTHLY

Journalism Award

for November 1984 is presented to

Newsweek

In its special issue on the 1984 election, *Newsweek* offered some choice tidbits. For example, Walter Mondale had to have "Where's the Beef?" explained to him before he adopted it as a hugely successful slogan, while Reagan figured out his snappy answer to the "age question"—that he would not make his opponent's "youth and inexperience" an issue—all by himself. More significantly, this election report communicated the flavor of the campaign through the kind of detailed reporting and thoughtful writing that one usually can get only in books written long after the election.

and

Matthew Kauffman
New Jersey Reporter

Kauffman's report on how New Jersey responded to guidelines from the EPA and pressure from parent groups to rid schools of asbestos presents some classic bureaucratic horror stories. Among them: during the last five days before the start of this school year, the state, which had inspected only 79 schools during the entire summer, found itself rushing through 192 visual inspections, even though the EPA finds visual inspection alone inadequate.

The Monthly Journalism Award is presented each month to the best newspaper or magazine article (or series of articles) on our political system. Nominations from any newspaper or magazine in the country are welcome. The subject can be government in its federal, state, or municipal manifestation.

The award for articles published in January will be announced in the April issue. Nominations will close February 15. Nominations should be accompanied by two copies of the article or articles.

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client is not deceased, he or she learns that the department's receipt of an erroneous death report was the reason benefits were canceled, and they can immediately set the record straight and be reinstated, often before experiencing an inconvenient or distressing lapse in benefits. If the client is deceased, the notice assures the estate that at least one aspect of the client's affairs has been settled without government red tape.

Legally, Chapter 42 of the Code of Federal Regulations, Subchapter C-431, mandates that a notice be sent to clients any time a benefit is changed or canceled for any reason. The regulations specify that the notice must be addressed to the client, a stipulation that rules out sending it to "the estate of. . ." or some other more genteel reference.

The wording the Iowa Department of Human Services now uses for its death-related notice of cancellation is slightly modified from the version you quoted. It more clearly states that the department's basis for canceling the benefits was receiving a report of the client's death.

MICHAEL V. REAGEN
Des Moines, Iowa

Michael Reagen is the commissioner of the Iowa Department of Human Services.

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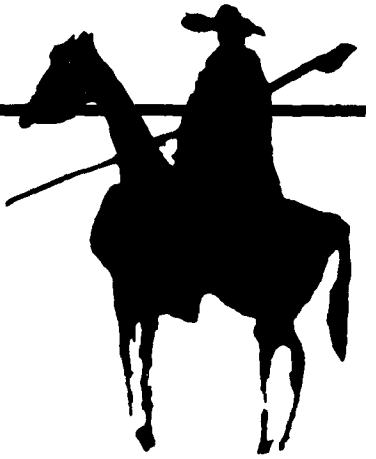
TILTING AT WINDMILLS



Several years ago, in response to the intelligence community's case for assassinations—that it's better to kill a Hitler than to fight a World War II—I said it was my belief that, had the CIA existed in the 1930s and had it been in the assassination business, it would have chosen as its targets Tito, de Gaulle, and Count von Stauffenberg. I should have added that it would have been slipping funds to the Fuhrer through a Swiss bank. If you think that I'm being a bit extreme, consider something I learned only last month and that I think very few people are aware of: the CIA was behind Idi Amin's rise to power. This information was not given to me by some left-wing fruitcake but by a trusted friend of 20 years who learned it from a former deputy director of the CIA....

As much as I admire the lawyers of the American Civil Liberties Union, sometimes I want to throttle them. Take what they're doing in California, where the state established a system of highway checkpoints to combat drunk driving. The ACLU has filed a suit to stop the program, calling it a "substantial invasion of fundamental constitutional rights." I want the police to check up on drunk drivers. Punish the cops if they beat up some motorist or arrest him unjustly, but give them a fair chance to identify drunks and get them off the road....

The National Council of Teachers of Mathematics says, according to a report from the Associated Press, that "schools should routinely make calculators available to kindergarten and grade-school children, including during tests." I realize that this would relieve these teachers of an intellectual burden that test scores suggest has been too great for many of them. But the interest of the teachers aside, isn't it in the interest of the rest of us to insist that our children be taught math in a way that challenges them to think instead of push buttons on a calculator?...

In the same intellectual tradition as the ACLU's opposition to drunk driving checkpoints is the protest by Americans United for Separation of Church and State against the issuance of a postage stamp honoring the work of Junipero Serra, the Catholic priest who founded the missions along the coast of California. What is wrong with recognizing the historical importance of religious figures as long as they are not specially singled out but are chosen along with prominent people from other fields, such as politics and education. It is the

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singling out, for help or harm, of religion or religions that the Constitution forbids....

State licensing boards have, as readers of this magazine know, two functions. One is to give the appearance of regulation. The other is to make sure that there is, in fact, no regulation at all—except of potential entrants, meaning potential competitors. Over the years, as more and more groups became aware of what this kind of regulation could do for them, state legislatures have been inundated with requests to set up new licensing boards. Some of my favorites are in California. Take, for example, the State Board of Fabric Care, which regulates dry cleaners and has not, according to the *Los Angeles Times*, revoked a license in more than a decade. Then there's the Board of Landscape Architects, which presumably protects owners of large estates from people who don't know where to plant the palm trees, a vicious gang of criminals if there ever was one.

The high moral tone of these groups is illustrated by the Certified Shorthand Reporters Board. The board has successfully protected the public from having court testimony transcribed by anyone other than certified shorthand reporters, stalwartly resisting dangerous innovations like the tape recorder that might appear to the untutored to be cheaper and more reliable than shorthand.

In the District of Columbia we have the Board of Cosmetology. Its solicitude for the public is suggested by the fact that it has not disciplined a single cosmetologist, even though, according to *The Washington Post*'s Molly Sinclair, one customer said she had been beaten on the head with a hot curling iron when she complained about the hairstyle she received. The customer even gave the board medical records of the x-ray and stitches she was given in a hospital emergency room....

If you have doubted our contention that the Democrats have become the party of the special interests, consider this report by Ralph Nader's Congress Watch: of the top 25 PAC recipients in the House, 21 were Democrats....

And if you doubted the identity of the beneficiaries of the Reagan recovery, consider this report from Geoffrey Quinn of the Associated Press:

"Americans are buying expensive goods like never before....North American Watch Co. is selling tens of thousands of Movado, Piaget, Concord, and Corum watches at prices beginning at $500....Mercedes Benz's sporty new $23,000 'Baby Benz' is being snapped up."

The retailing losers are the low-end companies, reports Quinn, while Saks Fifth Avenue, Neiman Marcus, I. Magnin, and Bonwit Teller

Choice and Consequence

Perspectives of an errant economist

Thomas C. Schelling

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are doing particularly well....

Who are the poor? To an astonishing extent, they are our children. According to a study by the Congressional Budget Office, the largest group of poor people are children. For 1983, 25 percent of all preschool children lived in households with family incomes below the poverty line. On the other hand, the poverty rate of the elderly was only 14 percent.

This study confirms a trend reported by the demographer, Samuel H. Preston, in the December 1984 issue of *Scientific American*:

"In 1970, 16 percent of those under 14 lived in poverty compared with 24 percent of those older than 65. By 1982 the situation had been reversed. Twenty-three percent of the children lived in poverty compared with 15 percent of the elderly."

In 1984, Preston says, the federal expenditure per child "is less than a tenth the expenditure per older person."

One reason for this development is the growing political power of the elderly. Their number has of course been increasing steadily. They also have the support of all the people who realize they, too, will be old some day, and they have the enthusiastic support of their sons and daughters, who are delighted to transfer the financial burden of their parents to the government.

By contrast, Preston points out, children can't vote and their only remaining source of political influence is their parents....

A recent Roper poll says that Americans daydream more about traveling abroad than about anything else, including being richer or smarter. Bruce Chapman didn't just daydream. He took the trips. Chapman, now director of the White House Office of Planning and Evaluation, did his traveling while he was director of the Census Bureau. In just one year, between August 1981 and August 1982, Chapman took 17 out-of-town trips, including visits to Europe, the Middle East, and South America.

Incidentally, during his tenure at the Census Bureau, Chapman also billed the government $135 to attend the Conservative Political Action Conference at the Mayflower Hotel in Washington. Another Republican official, Louis O. Giuffrida, the director of the Federal Emergency Management Agency, found a somewhat more ingenious way to get the government to pay for his attendance at a $250-a-plate political reception for George Bush. He sent the bill to a consulting firm that works for FEMA. The firm in turn, according to *The Washington Post*'s Howard Kurtz, included the $250 in its bill to the government. Giuffrida likes to travel abroad, too. In fact, his agency spent $5,000 to have his wife accompany him on first-class flights to Europe and Mexico—where, by the way, the consulting firm held receptions for the couple, charging the hors d'oeuvres and liquor to their FEMA contract, of course....

In the history of World War II in the Pacific, the names that quickly come to one's mind as the great heroes are MacArthur, Nimitz, and Halsey. But the man who was probably more responsible than anyone for America's victory in the crucial battle of that war, Midway, died on January 5 of this year, unknown. His name was Thomas H. Dyer. He was in charge of the Navy's cryptanalytic unit at Pearl Harbor that broke the Japanese codes, deciphering the battle orders of the Japanese fleet at Midway and giving decisive help to U.S. forces in many other engagements. "In private life," I was delighted to note in Captain Dyer's obituary, "he gardened, raised orchids under lights, and did needlepoint."...

The Ethiopia famine became a fact for the world on October 23 when NBC broadcast a story about it. A year earlier, Anthony Suau of the *Denver Post* had taken graphic photographs of starving children, but they were deemed so unnewsworthy that his paper at first refused to reimburse him for the expense of his trip and only two papers printed his pictures....

I was glad to see that the people who give the Pulitzer prizes have added to their

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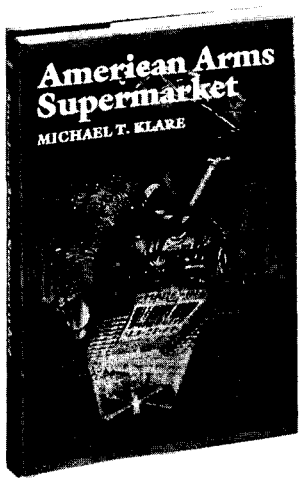
awards one for "explanatory journalism." This seems to at last meet the need for an award that will recognize reporting that combines fact-finding and analysis.

Unfortunately, there is another kind of journalism that they still don't seem to understand. At least I'm unaware of any award that recognizes it. This is the first-person article, written by a participant in the story, who can offer the unique insights that come from personal experience. You might remember one example from last year's articles in the *Monthly*—a story about the absurdities of teacher certification called "Yes, But Where Are Your Credits in Recess Management 101?" written by a teacher named Susan Ohanian, who had herself endured the nightmarish requirements that our public schools have instituted to drive the talented from teaching and to discourage them from even applying. We try to run several articles like this each year.

But the only one to win an award was "The Army Spies on Civilian Politics," by Christopher Pyle, who had been a captain in army intelligence while the misdeeds he described were taking place. I'm sure the reason it won recognition was that it exposed something illegal. Award-givers like that kind of thing: nail the crooks, expose the scandal. But they don't have much sympathy for articles like Ohanian's that explore serious, even grave, but not illegal, defects in the system. What may be another major factor in their non-recognition is that these articles usually aren't written by professional journalists, from whose ranks come most of the judges for the awards....

I have yielded to many in my admiration for Mary Cunningham. But one story she tells in her self-righteous and self-pitying book, *Powerplay*, did win my sympathy. One of the tasks William Agee asked her to perform while she was his subordinate at Bendix was to write his daughter's application to Princeton. Leaving aside the propriety of the daughter's application being written by anyone other than the daughter, there is something especially demeaning about being required to provide this kind of personal service for a boss. As a favor spontaneously asked of or volunteered by the employee, it may be forgivable now and then, but with far too many bosses, especially males dealing with female subordinates, it becomes habitual. I suspect there are often sexual overtones involved, "You don't love me if you won't do this," or something similar....

The cover story of the January 7 issue of *Time* hailed Peter Ueberroth as Man of the Year. On page 106 of the same issue, the Sports section vigorously condemned the threatened installation of lights at Wrigley Field in Chicago, the last bastion of daytime baseball. What the Sports section did not say was that the installation had been ordered by the office of the



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commissioner of baseball, who just happens to be a fellow named Peter Ueberroth....

On December 28, government agencies all over town exploded with the kind of glee the average criminal experiences when a cop is caught with his hand in the cookie jar. It seems that the General Accounting Office, which spends much of its time exposing waste in the rest of the government, had itself wasted $13 million on a computer project that was never completed. I have long suspected that Washington is a vast wasteland littered with computers that either don't work or are outdated. If the Russians were to launch a surprise attack, I once observed, government computers would respond by issuing 50 million erroneous Social Security refunds. The problem is that computers are ordered by people who imperfectly understand them, who just as they are getting the barest grip on the machine, are promoted or move on to some other job and are replaced by someone else who doesn't know what he is doing.

Another problem computers have created has been identified by Robert Ellis Smith, the publisher of *Privacy Journal*. It is the way computers perpetuate mistaken criminal records. In the old days such mistakes were localized and would die a natural death. "Nobody," says Smith, "would use an arrest record that was dirty or yellowed or dog-eared. With the computer, outdated records appear to be very contemporary."...

In 1940, 500 Jews, crowded aboard a decrepit, paddle-wheel steamer, fled down the Danube River from the Nazi puppet state of Slovakia. The story of their journey, which lasted four years and took them from Bratislava through Hungary, Yugoslavia, Bulgaria, Rumania, and Turkey via the Bosphorus and the Dardenelles to Lesbos, Rhodes, Italy, and finally to Israel, is told in a new book, *Odyssey*, by John Bierman. I recommend it. The author sees the Jews in all their human frailty, which makes their courage and tenacity all the more admirable. One fascinating contrast is between the behavior of their German and Italian captors. The former were simply horrible. The latter, while certainly not admirable, were relatively benign. How did the same political philosophy—fascism—produce such different results?...

The Washington Post's Style section, which took a few lumps in our January issue, deserves praise for facing up, in an article by Jacqueline Trescott entitled "So Close and Yet So Far," to an extremely painful fact about Washington life: blacks and whites have little social contact. A prominent black lawyer was quoted by Trescott as saying, "We attended many different events—a reception before a benefit, private parties hosted by whites, a black organization's Christmas party. At white events, there were only a handful of blacks. At the black party there were no whites." The truth is, if anything, a bit worse than the lawyer suggests. Often even the handful isn't there.

What this reveals is that even among black and white educated elites, the people who have no excuse for not knowing better, racial feelings continue to exist—ranging from hatred to discomfort and self-consciousness. One black told Trescott: "Black people who maintain a totally black environment see white people as the enemy." Another said: "White guests require more work. You have to make sure they are meeting everbody. At an integrated party you usually don't dance."

It's not that these inhibitions can't be overcome—a white Washingtonian, Nancy Folger, is locally famous for her integrated parties—but the hard fact is that few people make the effort. I guess this is one reason why I am more sympathetic to the idea of affirmative action than most of my fellow neoliberals. Extra effort, special emphasis—whatever name you give it—those of us who think being color-blind is enough simply don't make it and therefore miss the chance to get to know the other fellows. But where in fields like employment and college admission there was a need for whites to seek out blacks, I think affirmative action is needed from both sides to bridge this troubling social gap....

—*Charles Peters*

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WHO'S WHO in the Administration

The clear winner in the January job swap was **Donald Regan**. In Washington power terms, the White House chief of staff outranks any cabinet member. On the other hand, people who know **Reagan** and Regan foresee a conflict not far down the road. Unlike Reagan's previous close staff members, Regan is not schooled in the arts of the courtier. He has been a boss for so long that whatever skills he cultivated on the way to the top have been long forgotten. Now in his late sixties, he is a man who not only is not used to buttering up the boss but is more used to getting the credit than making sure, or appearing to make sure, that it gets to the top. Furthermore, his celebrity guarantees reporters will give him star billing, even if he doesn't want it. So when the umpteenth story appears crediting Donald Regan with some accomplishment, Ronald Reagan (or **Nancy**) will blow up....

Appearance is of course the name of the game in the public relations business. But that principle has been carried to the point of absurdity by the story of Hill & Knowlton, **Robert Gray**, and **Michael Deaver**. In 1980, Hill & Knowlton, having paid a large salary to Republican Robert Gray for the four long years of the Carter administration, was finally looking forward to capitalizing on its investment during the Reagan administration. Instead, Gray left and founded his own firm, the success of which is based on the perception that he has "close ties" to the White House. In fact, except for **Ed Meese**, whose power declined precipitously after the first year, Gray had no ties to the West Wing, and every one of his proposals was sabotaged by Deaver, who hated him.

Now Deaver is leaving the White House to form his own public relations firm with the idea of being the new Bob Gray. The joke is that because of the vindictiveness he displayed on the job, and not just toward Gray, Deaver has left so many enemies behind that it is almost certain every one of his proposals will be sabotaged. (This will be especially true if Deaver's closest allies on the White House staff—**Mike McManus**, **Bill Henkel**, and **Bill Sittman**—follow him out the door.) But given the lack of political sophistication American business has demonstrated, it is highly likely that Michael Deaver, like Gray during the previous four years, will make money on the basis of appearance, not fact....

In

WHITE HOUSE
Chief of Staff—**Donald Regan** has been secretary of the treasury.

DEFENSE
Acting Undersecretary for Research and Engineering—**James P. Wade Jr.** has been principal deputy undersecretary.

EDUCATION
Secretary—**William J. Bennett** has been chairman of the National Endowment for the Humanities.

ENERGY
Secretary—**John S. Herrington** has been White House personnel director.

INTERIOR
Secretary—**Donald P. Hodel** has been secretary of energy.

JUSTICE
Assistant Attorney General for Legislative Affairs—**Phillip A. Brady** has been congressional and public affairs director of the Immigration and Naturalization Service.

STATE
Ambassador to Switzerland—**Faith Ryan Whittlesey** has been assistant to the president for public liason.

TREASURY
Secretary—**James A. Baker III** has been White House chief of staff.
Deputy Secretary—**Richard Darman** has been deputy White House chief of staff.

AGENCIES AND COMMISSIONS
Chairman, Consumer Product Safety Commission—**Terrence M. Scanlon** has been a member since 1983.

Chairman, Federal Election Commission—**John W. McGarry** has been a commission member since 1978.

Out

WHITE HOUSE
Deputy Chief of Staff—**Michael K. Deaver** has resigned.
Chief of Staff, Office of the Vice President—**Admiral Daniel J. Murphy** will return to a national security post.
Press Secretary, Office of the Vice President—**Peter E. Teeley** will form a consulting firm in Washington.

INTERIOR
Secretary—**William P. Clark** is resigning to return to ranching in California.

JUSTICE
Assistant Attorney General for Legal Policy and Counselor to the Attorney General—**Tex Lezar** will join the Dallas law firm of Carrington, Coleman, Sloman & Blumenthal.
Assistant Attorney General for Legislative Affairs—**Robert A. McConnell** has been named vice president of CBS, Inc. for Washington in charge of regulatory and legislative affairs.

AGENCIES AND COMMISSIONS
Deputy Administrator, Environmental Protection Agency—**Alvin L. Alm** has resigned.

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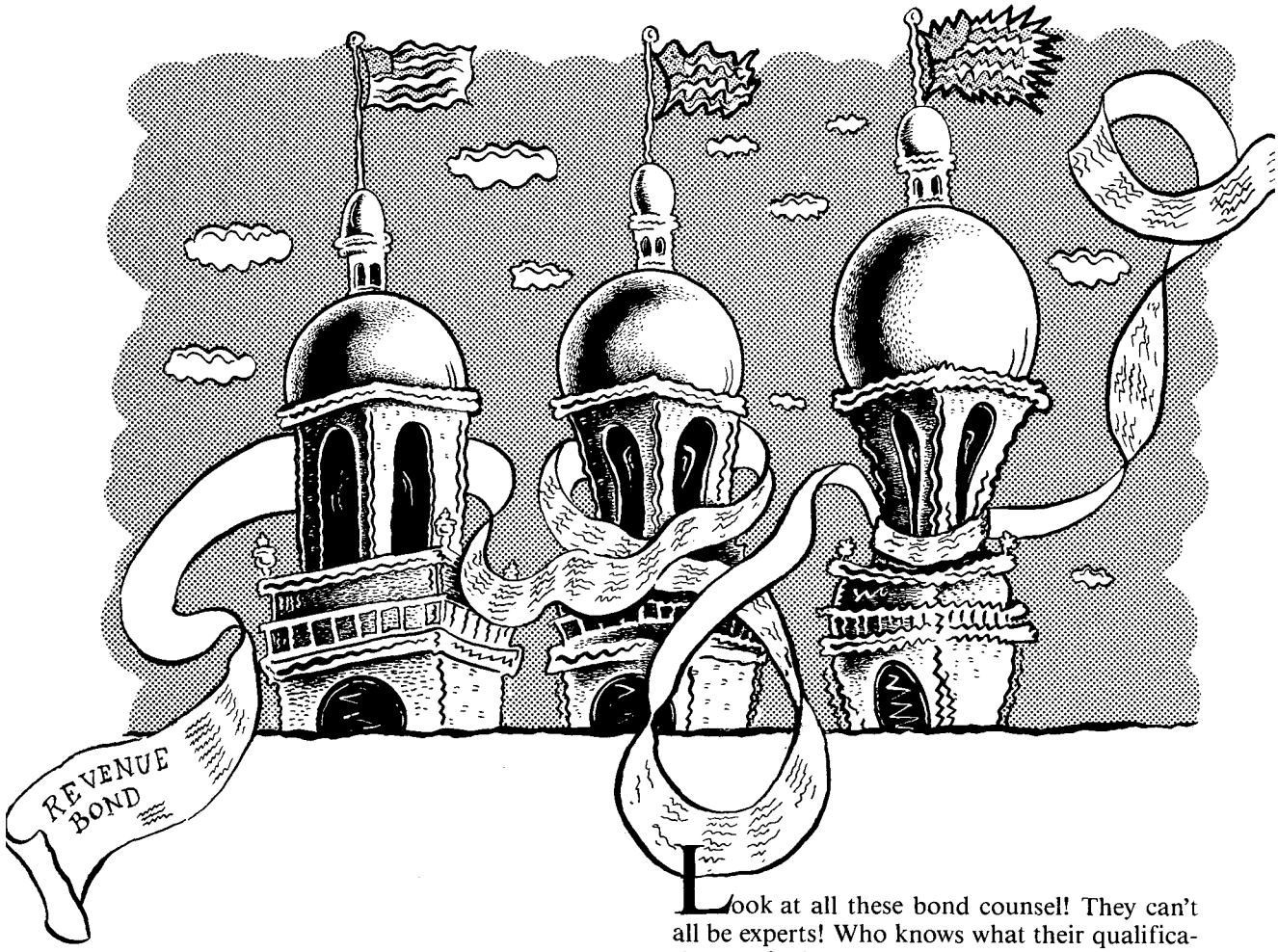

The Government Debt Racket

by Paul Glastris

"Look at all these bond counsel! They can't all be experts! Who knows what their qualifications are? These pages are cluttered with them!" Carl Trauernicht, a sixtyish-looking lawyer with a squat German butcher's build, was reaching for *The Red Book*—the *Martindale & Hubbell* of the municipal bond profession—and furiously flipping pages. Evidently hundreds of investment banking and law firms have swarmed into the municipal bond business in the last decade, bringing "innovations," and a spirit of competition, that Trauernicht is not at all pleased with. He found the section on St. Louis, his home city, and gave me the book. "Look here, how many firms are listed? Fifteen, maybe, 20, I don't know! Twenty years ago we were the only firm in the city, in the *state* almost!"

The municipal bond business, once a sleepy backwater area of the investment world, is growing and changing at a phenomenal rate. In 1971 less than $14 billion in new issues of municipal bonds came to market. In 1983 the total was $85 billion—$122 billion counting short-term debt. Hidden in these swelling numbers is an even more

Paul Glastris is a writer living in St. Louis.

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significant change. In 1971, 95 percent of the dollars raised on the municipal bond market financed the building of roads, schools, sewers —the meat and potatoes projects you commonly associate with municipal bonds. By 1983 these "traditional" projects made up less than half of the total. The other half, about $45 billion, went to finance activities having little or nothing to do with state and local governments: private hospitals, nursing homes, universities and college students, real estate developers and home buyers, and most importantly, corporations.

In all this activity, the small, tightly knit community of bond bankers and lawyers—of which Carl Trauernicht is one of the last representatives—has been overrun. Growing numbers of young turks armed with MBAs and computers and often coming from positions in corporate law and finance are getting into the business and revolutionizing it. Freda Stern Ackerman, executive vice president of Moody's Investors Service, observes that the once-conservative municipal market, now "flooded with innovative new products, is beginning to resemble the corporate debt market."

Carl Trauernicht looks upon this tumult of "creativity" with the bemused indignation of a man who disagrees with a changing world but knows his place in it is secure. His firm, Charles & Trauernicht, has nothing like the dominant position it once enjoyed throughout the South and Midwest when his father, Carl Sr., was running things. Yet, in a growing debt market, business keeps rolling in, largely on the strength of Trauernicht's reputation for competently handling traditional, "plain vanilla" bond issues, where creativity is beside the point.

By avoiding most of the innovative financings, Trauernicht has been able to keep his operation simple. He shows me a "Preliminary Official Statement"—a municipal bond equivalent of a stock prospectus—for an issue being handled by a competing law firm. It is 40 pages of numerical tables and dense legalese. "The literature we send out," he says, "is two pages, folded in half and stapled." Does he ever get complaints from bond buyers and bankers? "Occasionally someone will ask for more information; when they don't get it, they usually buy the bonds anyway."

In an era in which almost all the old-line bond counsel firms have merged with large corporate firms with sophisticated tax departments, Trauernicht has remained independent. "When I need an answer to a tax question," says Trauernicht, pointing to a bound set of tax regulations and striking a pose like John Houseman, "I go to the right book and look it up."

Charles & Trauernicht's staff is meager: two aging lawyers and two pleasant, matronly secretaries. A conspicuous lack of young, starch-shirted associates suggests the eventual disappearance of this way of doing business. Even the offices in downtown St. Louis have that look of hoary respectability that makes interior decorators smile in their sleep: grey metal trash cans, conference tables seemingly carved out of tree trunks, doors with windows of opaque, rippled glass. There is one acquiescence to the New Era—a word processor.

Retelling the history of his firm, Trauernicht describes the late Benjamin H. Charles, the firm's founder, without a touch of irony or qualification, as "a good lawyer, a gentleman, a man of honor and principle." Of all the changes that have rocked the industry in recent years, the one that truly seems to have wounded Trauernicht's spirit is the decline of the reputation of his calling—the debauching of the tradition of bond counsel. It's a tradition unique in the history of the legal profession.

Gentlemen prefer bonds

It all began in the latter part of the 19th century, when a number of southern and midwestern states repudiated their bonded indebtedness on the grounds that the bonds were technically defective and hence not legal and binding. (Southern states, for instance, argued that their bonds had been issued during Reconstruction by carpetbaggers, who were not popularly elected.) After getting burned a few times, bond buyers and bankers began hiring lawyers to read over the bond-issuing documents—called "transcripts" in the trade—to make sure that no undotted "i" or uncrossed "t" could be used to challenge the legitimacy of the bonds. Once the "bond-approving attorney" had examined the transcripts under his loupe, making sure that the tax assessments were done correctly, that notices of bond referendums had been publicly posted, that

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there were quorums at the local council meetings, and that all the right officials had signed all the right papers on the right day in the right order, the attorney would draft an "opinion of counsel," affirming the legality of the obligation. This opinion would accompany the bond, or would be printed directly on the security. For the buyer of the bond, it was a form of insurance.

Business naturally gravitated to a few firms that specialized in this arcane realm of the law—first in New York, where most of the big bond counsel firms are still located, then in a few large cities around the country. Bond buyers and "underwriters" (investment bankers who buy bonds from governments and sell them to the public), unwilling to take unnecessary chances with their money, soon got into the habit of purchasing only bonds accompanied by an opinion of "recognized bond counsel." Over a period of decades, this small fraternity of private lawyers came to preside over this obscure corner of government finance.

The instruments of their power were the various and complex state and municipal laws—often the products of 19th-century tax revolts—that were designed to tether the ability of politicians to incur public debt. Bond counsel saw themselves as guardians and interpreters of these municipal debt laws and came to regard their opinions almost as those of an ex-officio judge. Though they originally were hired by bankers and then were retained by governments, bond counsel insisted that they represented no one party but all parties or, simply, "the transaction." It was a heady position, "the closest a lawyer gets to playing God," remarked an older gentleman who had been a bond counsel in the early fifties.

There was money in it, too. During its long heyday, from around 1900 to the 1970s, the municipal bond practice resembled, in the words of an MIT economist, "a classic noncompetitive industry." Bond counsel customarily took a cut of from .5 percent to 5 percent of the proceeds of a bond sale. Sometimes the percentage slid downwards as the size of the issue grew, sometimes not. It was no use arguing over the compensation; bond counsel, being gentlemen, wouldn't hear of it. Bond counsel fees became a fixed cost, paid almost without a second thought.

The real beauty of the job, from the bond counsel's perspective at least, was that it often involved almost no work. Plowing through bond issuing transcripts and writing opinions was a lot like doing real estate title searches: the first time around, learning all the statutes and procedures was time-consuming and difficult; thereafter, in the words of one Washington bond counsel, "it was pure boiler-plate"; a seasoned attorney could look them over, suggest changes, and write his opinion in a few hours or at most a few days. For this strenuous effort he would receive his customary fee—for a $1 million issue, typically 1 percent, or a cool $10,000.

It was such ridiculously easy work that municipal finance officers, who had been drafting all the documents themselves for the bond counsel's approval, started shifting much of this work to the counsel himself. Even this did not cut too deeply into the attorneys' nap times: counsel soon developed prefabricated documents they could modify to fit a particular issue and then give to a secretary to work up. (Now you know why a bond counsel's one concession to modernity might be a word processor.) As late as 1977, the senior partner at Wood Dawson, in New York, the nation's oldest, most venerable bond counsel firm, could claim that "if you calculate our fees on an hourly basis, you would probably find that [we] are among the highest, if not the highest, of any other area of practice."

Monopolistic as it was, the old system did have one advantage: it smothered innovation. We are accustomed to thinking of innovation as the agent of progress and growth; but what do you get when the lawyers start to innovate in the government debt market? Give up? Expanding government debt.

Sheltered from competition and lacking the incentive to press the advantages of single clients, bond counsel were not in the habit of devising innovative legal strategies for circumventing statutory debt restrictions. A stodgy respect for the intent as well as the letter of the law became the central aspect of a professional culture so clubby that, legend has it, no bond counsel would even consider opining on an issue already rejected by a colleague. But the boom years after World War II, with their mushrooming demands for state and local government services, put this old system under strain. Professionals in the bond business are even more specific. They can tell you

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We are accustomed to thinking of innovation as the agent of progress and growth, but when lawyers start to innovate in the bond market, we all end up further in debt.

the year, the place, and the two men responsible for transforming the municipal bond industry.

Nelson's manna

Nelson Rockefeller was not a man to take no for an answer. It was 1960, and the governor of New York wanted to be known as a builder of public housing and many other things. To build, he needed a great deal of money. But even for a Rockefeller, that was a problem. New York's constitution, like those of most states, required voter approval of any bonds secured by the "full faith and credit"—that is, the taxing power—of the state (such bonds are called "general obligations"). By 1960, getting voters to approve housing bonds was no piece of cake: one such referendum had been defeated in recent years, and two others had barely squeaked by. The voters of New York seemed to be telling their elected officials, No.

There was, however, a way to get around the voters: revenue bonds, which are backed not by taxes, but by the revenues generated by the proposed project—in this case, rental payments from the housing. New York had pioneered the use of revenue bonds back in the 19th century for the very purpose of avoiding constitutional debt limitations. To issue such bonds, a state generally has to set up an independent public authority to keep the project off-budget, among other reasons; accordingly Rockefeller created a Housing Finance Agency.

There was a hitch, however. Millions of dollars of housing revenue bonds had gone into default during the Depression. Investment bankers and bond buyers have long memories, and they, like the voters, were sending Rockefeller an unwelcome message. The projected revenue from the public housing projects was not enough security for them. They wanted the state to put its own credit on the line—or no deal.

To appease the bankers and still circumvent the voters, the governor needed a new, quick-change bond, one that appeared to commit the state's taxes but in the fine print really didn't. He needed, in short, a legal innovation.

Almost in desperation, Rockefeller turned to a bond attorney with a venerable New York firm who had made his name in the thirties as an "innovator" in this very field—housing revenue bonds. The lawyer's name was John Mitchell, and he brought to the governor's dilemma the same crafty pragmatism that he would later show as Richard Nixon's attorney general. In 1960, Mitchell's sly deed was the invention, for Nelson Rockefeller, of the "moral obligation" bond.

Under the terms of Mitchell's moral obligation, the governor was to notify the legislature when and if the revenues from the public housing were insufficient to meet the payments on the bonds. The legislature was not obligated in any way to pay the bondholders a dime; it merely had to *consider* doing so. The devious brilliance of Mitchell's scheme was that it made everyone think they had what they wanted. Rockefeller didn't have to seek the approval of the voters, since technically their tax dollars were not on the line. The legislature, assuaged by the governor's oft-repeated promise that the bonds would "never cost the taxpayers a cent," genuinely assumed that they would never have to cover any revenue shortfalls.

The bankers, on the other hand, understood that the trump card most probably was theirs. If the state welshed just once on these moral obligation bonds, it would lose its standing in the credit markets for a very long time. No more university expansion. No more public works. Salesmen for the big investment firms told their customers, with much justification, that "New York will never let these bonds go into default."

With such assurances, the bonds sold like hotcakes. Rockefeller was ecstatic. "Old Nelson espoused my theory like it was the salvation of mankind," bragged Mitchell. "He treated the money like manna from heaven." Rockefeller was

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soon issuing billions of dollars worth of moral obligation bonds to build schools, hospitals, universities, and mental institutions. Investment bankers were getting rich off the burgeoning public debt. And Mitchell himself was making a fortune; as the nation's authority on moral obligation financing—a technique that would spread to 35 states—Mitchell is reported to have made $2 million a year.

The charade ended in February 1975, only months before the collapse of New York City's finances. The Urban Development Corporation, another Rockefeller housing authority heavily dependent upon moral obligation financing, defaulted on $100 million in bond anticipation notes. It was a mess for the state, but the bankers did indeed hold the winning hand. The bankers and the the lawyers made money, the bondholders lost nothing, and the people of New York state picked up the $650 million tab.

Profits for parvenus

John Mitchell set an example that would transform the municipal bond profession, but it was the rise of industrial development bonds (IDBs) that gave a new generation of go-go bond lawyers its spurs.

To understand IDBs you need to grasp only one fact: the entire municipal bond market is based upon a tax exemption. To help states and localities, the federal government has refrained from taxing the interest bondholders get from state and local governments. This in turn enables these governments to sell their bonds at lower interest rates than they would have to pay otherwise. In effect, the federal treasury pays part of states' and municipalities' interest costs.

Who could object to subsidizing the building of bridges and schools? The problem is that providing this subsidy indirectly, through a tax exemption, wastes a great deal of money, as we shall see. But beyond that, all the federally subsidized capital swirling around in the municipal bond market can attract other interests, such as corporations, the way a floodlight attracts bugs. Enter industrial revenue bonds, which were getting popular in the early sixties just as John Mitchell was establishing a beachhead for innovators in the bond counsel world.

In IDB financing, the local government acts as a kind of front man for a private company, borrowing money at low interest rates—thanks to the U.S. Treasury—and using the proceeds to build a factory or a shopping mall for the company in question. The justification for this laundry operation is that the resulting employment serves a public purpose. True enough. But when every municipality in sight began issuing these IDBs to attract business, it became a zero sum game. None gained the special advantage they had sought. The only winners were the bond lawyers and the companies themselves.

Back in the 1960s, however, no one thought of that (or if they did, they weren't talking). Two men who watched the flood of new lawyers break down the old bond clique are William McCarthy, a bond counsel and later a vice president of Moody's Investors Service and Arthur Hausker, a banker/researcher with Reynolds Securities. (Both are now at Fitch Investors Service, like Moody's, an investment rating agency.) "The industry grew with industrial revenue bonds," McCarthy explains, "which brought in corporate lawyers. Wall Street and LaSalle Street and Montgomery Street saw that, frankly, there's money to be made here. That's the American system."

These new, corporate-bred lawyers had little sense of the quasi-judicial tradition of bond counsel. "When Bill and I first got into the business," Hausker recalls, "by and large your bond counsel rendered his opinions based on *existing* statutes. It wasn't very long, particularly when IDBs came into the picture, before bond counsel were the ones *writing* the statutes at the behest of bankers and legislators."

State and local debt statutes originally were not written with the needs of corporations in mind. "Often obstructions in existing statutes had to be swept aside for the path of progress," says McCarthy. "If you get the statutes passed, you can probably get the clients a little faster than your competitors."

"Now, there are some firms that are more known for this..." McCarthy pauses, not wishing to name names. I suggest one for him: Kutak, Rock and Huie. "Kutak, Rock is a *prime* example," McCarthy exclaims. "Bob Kutak—that's how he got going."

Kutak, Rock and Huie—the very name is a kind of generational litmus test for bond lawyers.

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"If the law says L Street is one-way, some attorneys will leave it at that. We'll ask, 'Can you walk in the other direction if you stay on the sidewalk?' "

The parvenus who do mostly IDBs and related work generally refer to its lawyers as "top notch" and "professional." Attorneys with the older firms have harsher opinions. "I've not been very pleased with Kutak, Rock," one bond counsel with a large New York firm told me. "They've not only cut corners on their legal analysis, they've lowered the standards for soliciting business."

"*All* bond counsel are conservative," counters Haven Pell, a young partner at the Washington, D.C. office of Kutak, Rock and Huie. "Tax-exempt bonds are not like tax shelters. You can't take outrageous positions and wait for the IRS to rule on them. If your opinion is wrong, the bonds aren't tax-exempt; and if they aren't legal, the bondholder gets *nothing*. Bond counsel get *sued*." That said, some bond counsel are more conservative than others: "Different lawyers read things in different ways." Pell reflects on how to illustrate his point. "If the law says L Street is a one-way street, some attorneys will leave it at that. We'll ask, 'Can you walk in the other direction if you stay on the sidewalk?'"

Subsidizing K-Mart

Thinking like this has been behind Kutak, Rock's phenomenal growth from three lawyers to more than 140 in fewer than 14 years—an indication of just how much money there is in private purpose municipals. It started in 1966, on the day Bob Kutak, then a hungry lawyer in Omaha, met Jim Lopp, a 27-year-old bond banker with the investment house of Eastman, Dillon. Together, Kutak and the hard-selling Lopp convinced the city of Omaha to build a multi-million-dollar facility that was supposed to turn the scraps from South Omaha stockyards—which had been fouling the Missouri River—into profitable byproducts. Kutak and Lopp also convinced the city to put its credit on the line (the meatpackers wouldn't) behind the IDBs sold to finance the dubious venture. The plant failed, of course, and the people of Omaha are still paying off the bonds. But not before Bob Kutak's firm got $75,000 as bond counsel, $178,000 in the ensuing litigation, and invaluable experience in an exploding new field.

By the time the trouble started, Bob Kutak and Jim Lopp were riding the crest of a wave of private purpose municipal financings. "For four years I just rode the airlines," Lopp recalled in *Business Week*. "Other firms would stay with a deal and do it. But I'd bring in [Kutak's] law firm to do the documents and go and get the next deal." When it came to lobbying state politicians to get enabling legislation for various IDBs, the team of Kutak and Lopp had few peers. "We've been responsible for changing laws in 15 to 20 states," Lopp bragged in 1972.

In Chicago in 1978, they unveiled perhaps their most notorious creation: single family mortgage revenue bonds. Previously, states had issued housing bonds largely to provide shelter for the poor. Now, local governments would sell these new bonds and pass along the proceeds to savings and loans to lend out as conventional mortgages—not, of course, to the poor, but to middle-income families.

"Jim Lopp figured there would be just an incredible demand for these things," recalls Haven Pell. And indeed there was, in no small part because the program's definition of middle income was so generous that families in the top 10 percent of the income scale qualified for the federally subsidized mortgage money. Almost singlehandedly the team of Kutak and Lopp had created another middle-class government entitlement of potentially staggering proportions. Competing firms soon were digging through state constitutions all over the country to find legal garden plots in which to plant these new moneymakers. Arizona Governor Bruce Babbitt complained that New York underwriters were "flocking into town like vultures trying to drum up business." Mortgage bond programs multiplied accordingly—$550 million in 1978, a billion

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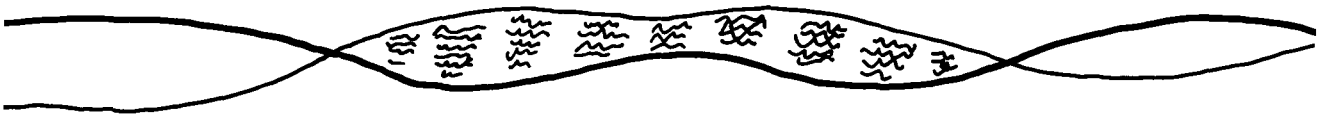

dollars more in the *first three months* of 1979.

Mortgage bonds seemed like magic money. State and local politicians could issue millions of dollars of them, gaining commensurate favor from middle-class voters, all without the inconvenience of having to raise state and local taxes. It was like having an American Express card courtesy of the U.S. Treasury.

The IDBs worked the same way. Few municipalities were as naive as Omaha was back in 1966, when it put its own credit on the line behind its IDBs. Local politicians had nothing to lose and everything to gain by issuing these bonds right and left. To keep them from giving away the store—one locality in Oregon, for instance, floated a $140 million IDB to build facilities for a Japanese-owned aluminum company—Congress in 1968 imposed caps of $1 million per company per municipality (it later raised the amount to $10 million). But that didn't keep huge corporations such as McDonalds and K-Mart from accumulating hundreds of millions of federally subsidized IDB dollars simply by garnering many separate small-issue IDBs to finance individual stores and restaurants around the country. Nor did it stop such dubious candidates for subsidy as Hendersonville, Tennessee's $1.5 million IDB for an entertainment center in honor of country singer Conway Twitty; or the $5 million IDB Riverhead, New York floated for a breeder of thoroughbred race horses; or the $400,000 for a building in Philadelphia that housed an adult book store and topless bar. IDBs soared from $1.3 billion in 1975 to $14.2 billion in 1982.

Throughout the seventies and eighties, bankers and lawyers continued to dream up new uses for tax-exempts: student loans, private hospitals, nursing homes, universities, and agribusiness. There was even talk of selling tax-exempt bonds to provide low-interest loans for people to buy automobiles. "You cannot come to a qualified bond counsel," one such attorney advised me, "who cannot figure out ways to make almost any project tax-exempt."

In 1982, for the first time, more tax-exempt "municipal" bonds were sold for such private purposes than for the governmental purposes for which these bonds originally were intended. Ten percent of all private borrowing is now done in the tax-exempt market. In 1983, Assistant Secretary of the Treasury for Tax Policy John Chapoton—himself a bond counsel with the Texas firm of Vinson & Elkins—told Congress that "the term municipal bond has become a misnomer." These bonds were now an extension of the corporate bond market.

And what's so bad about that? Don't these bonds provide jobs and stimulate the economy?

Sure, to some extent. But it would cost the taxpayers less just to *give* the money to corporations and homebuyers. Dispensing the subsidy indirectly, through the bond market, involves all sorts of rake-offs. Part goes to municipal bond buyers, the last people on earth who need a federal handout. Seventy-one percent of all municipal bonds are held by the wealthiest 2 percent of American families—those with incomes of $100,000 a year or more. Another big piece for the subsidy winds up in the pockets of you-know-who. Underwriters and bond counsel alone lop off 1 percent to 3 percent before the proceeds of a bond reach their intended beneficiaries. A retinue of middlemen also gets involved. "In some cases, consultants get *enormous* fees," explains Fitch's Hausker. "When you put all the fees together with the capitalized reserve funds, you can sometimes see a *third* of a bond issue, perhaps even more, going for other than brick and mortar."

A bond counsel with a large corporate law firm, whom I will call my "bond counsel friend," said, "if government really was saying 'we want to give you a subsidy to do these kinds of public projects,' the much more efficient way to do it would be to hand out the money, rather than pass it out to nine gladhanders who just happen to be working on the transactions as they go by."

Inefficient private-purpose municipals are a drain not only on the federal treasury but on state and local governments as well. The flood of such bonds created a buyer's market, driving up the interest rates states and localities have to pay for true municipal projects. A 1982 GAO study suggests that your state and locality had to pay upwards of 2.2 percent in excess interest rates in order to build roads, bridges, schools, and courthouses because private businesses were soaking up so much of the available tax-exempt money.

Many state and local officials began to catch on that private purpose bonds were not the sweet

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deal they had thought. In 1980, over the fierce objections of the municipal bond industry, Congress enacted curbs on mortgage bonds that would phase them out entirely by 1983. But in 1984 House Ways and Means Committee Chairman Dan Rostenkowski extended the mortgage bond sunset as part of the deal to include modest IDB caps in that year's Deficit Reduction Act. (Never a man to be left behind at the station, Rostenkowski had already invested $250,000 of his reelection cash hoard in Dow Chemical IDBs.) It was hardly a blow to send the industry reeling. The small but influential bond professionals lobby—Kutak, Rock lawyers prominent among them—is, according to one Washington bond lawyer, "already busy trying to get the volume caps removed."

31 Flavors

Perhaps you thought there'd be at least one advantage to the swarm of new lawyers in municipals: the competition would bring fees and costs down. If you thought that, you've been reading too many economics texts. Fees and other bond issuing costs have been going up, up, up: between 1973 and 1979, the costs of doing small revenue bonds *doubled*.

One reason for this is investors' demand for

"What a waste of a talented human being"

If your father used to remind you that "money doesn't grow on trees," he obviously wasn't into arbitrage. Imagine that you could take out a tax-exempt, low-interest loan, and use it to buy Treasury bonds yielding a higher rate of interest. The difference, or "spread" between the rate you paid on the loan and the rate you received on the Treasury bonds would be pure profit. That's arbitrage. Neat, huh?

The bond industry caught on to this money tree in the early sixties, and by the middle of the decade, hundreds of millions of dollars in state and local arbitrage bonds—issued for no reason other than to play the tax-exempt spread for profit—was heading to market. It wasn't just the federal treasury that would lose out on this debt; it was the states and municipalities as well. Eventually, unbridled arbitrage would dump so much extra debt on the tax-exempt market that the spread between municipal bonds and U.S. Treasury securities would disappear, taking with it any advantages state and local government borrowers traditionally enjoy when building roads and school houses.

To stop these arbitrage abuses, the Treasury in 1969 added provisions to Section 103 of the Internal Revenue Code, denying tax exemptions for the interest on arbitrage bonds. But the laws didn't work very well, largely because of the clever minds of people like Willis Ritter, who today is a partner with Haynes and Miller, the Washington, D.C. bond counsel firm.

"I drafted the original 103 regulations as a staff attorney at Treasury," recalls Ritter as he leans back in his chair and stares out of the window of his office in Washington's law office canyonland. The regulations Ritter drafted, like all tax laws, were open to creative interpretation. A few years after he drafted them, Ritter himself went into the interpretation business. Today, he is reputedly the best "special tax counsel" money can buy, helping municipalities make arbitrage profits without running afoul of the regulations he helped create.

"Some people are the world's best solvers of crossword puzzles," says another Washington bond counsel. "Willis is the world's best solver of arbitrage problems. He's a computer genius. He sees complex revenue flows in his head. Arbitrage is an arcane, difficult, miserable area of the law; Willis finds avenues through it that are legal."

Arbitrage law became this arcane and difficult largely because of the Treasury's attempts to keep up with lawyers like Ritter. An official familiar with the department's procedures explains that Treasury lawyers are always "half a step behind" the latest schemes. "Guys like Ritter are smart enough to understand where holes are in the regulations and exploit them," the official says. Treasury lawyers try to plug the holes with more regulations; tax counsel find new holes, and the cat and mouse game goes on. The result is a body of law that President Reagan's first assistant secretary for tax policy once described as "just a mess" and "almost beyond comprehension."

Like many people in the municipal bond business, Ritter seems tired and overworked. "The pace is just terrific," he tells me. "Meetings. Drafts. Letters. It's really become a young person's game. The average age of a senior v.p. at an investment banking house is about 35. I'm 44 and the second oldest person in this firm."

"Willis makes a fortune doing arbitrage compliances," says a young municipal banker in New York, shaking his head. "Now Willis is a very creative guy. He could do a lot more creative things than sitting around worrying about arbitrage compliances. But he's really in demand. What a waste of a talented human being."

—*P.G.*

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Three ways out

The first step to ending the municipal bond paper chase is to end the tax exemption for all municipal bonds that go for nonmunicipal purposes: no more tax-exempt money for K-Mart and McDonalds, which drives up the rates that localities must pay to build bridges and schools.

Better still, Congress should end the tax-exemption for *all* revenue bonds—those not backed by the taxing power of state and local governments. This would eliminate the lawyer-intensive tools corporations use to pick the lock on the tax-exempt bond market and politicians use to incur debt without the approval of voters. It would also eliminate the reams of federal regulations through which projects qualify as tax-exempt. If a state or local government were willing to put its taxing power behind a bond, that would indicate strongly that the project served a true public purpose and the bonds would qualify automatically.

The best solution of all is to eliminate the tax exemption for municipal bonds entirely. Sure, states and localities should get an interest rate break when they borrow for genuine public projects. But shouldn't the subsidy go to them and not to rich tax lawyers and investors? In the late seventies both Congress and the Treasury estimated that municipal governments would lose nothing, and taxpayers would actually come out ahead, if municipalities issued taxable bonds and let the federal government pick up 35 percent of the interest cost.

This direct subsidy idea outrages many bond professionals who claim that any "tampering" will "compromise" state and local government sovereignty. But then, these people are silent about the compromising effects of the more than $90 billion in federal grants and aid states and localities already get each year. Besides, unless we tamper with the inefficient municipal bond subsidy, that trillion dollars of crumbling infrastructure we've been warned about—the repair of which will have to be financed largely with municipal bonds—will cost the taxpayers many billions of dollars extra.

—*PG.*

greater financial disclosure in the wake of the 1975 New York City crisis—a demand only heightened by the $2.5 billion default (the biggest in history), in 1983 by the Washington Public Power Supply System. The federal government doesn't prescribe disclosure standards for municipal bonds the way it does for corporate securities. But the standards that have evolved in reponse to market forces are enough to make any OSHA regulator blush. "Lawyers are writing a lot of the prospectus sections," says Arthur Hausker. "They tend to go overboard in some areas and you end up with a lot of stuff that is just plain filler."

Bond lawyers and bankers prefer to call attention to ways the federal government does contribute to rising costs. "I'd be willing to bet that one-third of the costs of any state or local bond issue is due to complying with federal regulations," says Arthur Goldburg of the New York investment banking firm of Matthews and Wright. Goldburg is a scrappy, tightly wound fellow who derides uncontrolled federal spending but refers to state and local spending as "meaningful attempts to solve social problems." The regulations he speaks of are the ones defining the bonds that qualify for the tax exemption. "In the mid-sixties, when I came to this business," Goldburg told me, "if somebody came to me and wanted to produce housing...a month, two months, three months tops, we'd be in the marketplace, the deal would be over. Today, the same deal walks in the door, you gotta figure it's going to take six months or a year, and probably longer."

It's easy to understand Goldburg's resentment. But then, it's hustling professionals like himself, pushing at the soft borders of existing regulations, who compel the federal government to add even more. (See sidebar, page 19.)

Municipal bonds are getting downright kinky. And the kinkier the lawyers like Goldburg make them, the higher costs and fees seem to go. Take the plethora of new financial products that bond hustlers have invented in recent years in response to volatile interest rates—zero coupon bonds, variable rate notes and bonds, put-option securities, tax-exempt commercial paper. Most of these give bond investors greater liquidity, shifting the risk from the investor to the issuing government, in return for lower interest rates. The new "products" are tailor-made for the tax-exempt money-market funds that have an almost insatiable appetite for short-term paper that they can readily convert to cash.

Eager to oblige this new market, bankers and lawyers have been pushing their risky new offerings the way Earl Sheib sells paint jobs. Observers like Phil Dearborn of the Greater Washington

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Research Center are very worried. "Things like commercial paper are really for the benefit of investors and investment bankers," says Dearborn, who once was finance director of the city of Cleveland. "Governments shouldn't be in them." If interest rates shoot up and investors cash in their bonds, then states and localities suddenly will face much higher debt costs. Even professionals in the business are embarrassed. "I think [bankers and government officials] are playing a very dangerous game," says Jim Zigler, of the underwriting firm of Dillon, Reed.

Risk is just part of problem. The extra work needed to create and market the new offerings is prodigious, eroding the benefit of the lower interest rates. Haven Pell describes the legal bill for Kutak, Rock's first variable rate demand bond for Tucson Gas and Electric as "pretty staggering." As bond firms have gained experience, the cost of these financings has come down, but not to the level of simpler bonds. "They're very complicated," says Pell. "It's like writing a book. The Federal Express bills alone are beyond description."

But don't blame the increasing kinkiness—and costs—entirely on the exotic new offerings. Private purpose bonds, which are almost always revenue bonds, are lawyer-intensive by their very nature. Lacking the safety net of tax receipts, revenue bonds tend to default: almost all post-Depression municipal defaults have been revenue bonds (Washington Public Power Supply System, for instance). To comfort investors into accepting lower interest rates—and, not incidentally, to help assure themselves quick sales and easy profits—bankers try to extract all kinds of costly concessions from revenue bond issuers: high reserve funds, bank letters of credit, bond insurance, detailed agreements as to which creditors get liens on which revenues. The paperwork for all these concessions helps guarantee a sunny future for the students in the nation's law schools. "Revenue bonds are field days for lawyers," a bond counsel told me in his office one day. "You need all those attorneys to certify that the house of cards won't fall down."

This particular bond counsel, like so many others, does mostly IDB and mortgage bond work. Lining his office were shelves of what appeared to be fat, hard-covered encyclopedias with gold-embossed letters on their bindings. Each one, it turned out, contained the documents for a *single* IDB. "A bond transaction is not a simple loan," he said with great flourish, "it's a documented moment in history." To document the moment in history created by a typical $12 million mortgage revenue bond, he said, lawyers have to crank out a set of transcripts six inches thick. He handed me one of the hefty volumes; it was for a simple, $1 million IDB. Many IDBs such as this one, he said, are "privately placed": a single bank buys all the bonds and treats them as it would an ordinary bank loan. How many pieces of paper would be generated if the company, instead of finagling a low-interest loan through the IDB, had just gone to a bank and borrowed a million dollars, I asked? "About two," the lawyer laughed. "A note and a deed of trust."

One way governments could diminish this costly paperwork brigade would be to put up better security, i.e., issue old-fashioned general obligation bonds, backed by the tax base of the issuing government. "For a lot of general obligation financings," says Phil Dearborn, "you don't really need a bond counsel." Bank of America found that governments saved, on average, $100,000 on each $10 million bond issue, and got a 0.3 percent better interest rate to boot, when they backed their borrowings with their tax base rather than project revenues. If you've already guessed that despite this, state and local governments are getting more and more of their debt dollars from *revenue* bonds, then you've grasped the basic logic of municipal finance. Between 1966 and 1979 new issues of state general obligation bonds, as a percentage of total new municipal debt, dropped by more than half, while the revenue bonds of statutory authorities nearly doubled.

Why? Because democracy is a nuisance. Those 19th-century debt ceilings and requirements for voter approval normally apply only to general obligations. Revenue bonds, in their infinite manifestations, are the great loophole. As Nelson Rockefeller realized a quarter-century ago, democracy is no match for a good bond lawyer.

Two barbers, one haircut

Back in the old days, municipalities almost always sold their bonds to underwriters by competitive bidding. Today they are more inclined to

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negotiate their bond sale with a single underwriter; bankers claim that the new varieties of revenue bonds, with their financial bells and whistles, are too complicated to be sold through old-fashioned competitive methods. While bankers still "compete like crazy for the chance to do negotiated bids," as my bond counsel friend explains, they no longer do so simply on the basis of bid numbers. Underwriters today have to do other things, such as helping innovative lawyers dream up new ways of circumventing debt restrictions, to win the favor of politicians. Also, bankers are learning to stroke politicians where it really counts. "You go through whatever you have to on the political end of it," says a young banker at E.F. Hutton in New York. "You just have to play the games."

Games include sending several representatives to $1,000-a-ticket cocktail parties for political candidates such as the one California Treasurer Jesse Unruh threw for underwriters in New York a while back. "It's become part of the business," explains a vice president of Morgan Guaranty. "You are dealing in a political environment, where people have to run for office, and it's become increasingly costly to do so. We certainly see the same thing on the federal level."

Another trick picked up from the federal level involves political action committees. Bear & Stearns, for example, has been operating the fourth largest corporate PAC in America, through which it lavished state and local politicians with more than $400,000 in campaign funds in 1981 and 1982. Bear & Stearns also has gone from a nonentity in municipal finance to a powerful force—in three years. Lessons like this are not lost on the underwriting community. According to *The Wall Street Journal*, the chief executive of Lehman Brothers sent a memo to his people warning that "other investment banks have larger and more active political action committees" and suggesting that the proper contribution to the firm's own PAC would be about .5 percent of an employee's annual salary.

Not that money invested in this manner doesn't yield a fair return. For instance, in November Michigan Treasurer Robert Bowman chose Smith Barney and several other firms to underwrite $30 million of the state's water bonds. Days earlier these firms had attended a $500-a-ticket cocktail party in New York, hosted by Bowman for the benefit of Michigan Governor James Blanchard. With the rise of negotiated sales, deals like this are becoming almost routine, but this one had a special twist. The bonds Bowman chose to negotiate were not complicated revenue securities but simple, voter-approved, general obligations. "If ever there was a bond issue that would have brought in a whole slew of low, competitive bids, it was these water bonds," exclaims an outraged professional in Michigan's municipal bond community. "But who's going to know if they sold a point or two higher than they had to?"

Negotiated sales put a premium upon chummy relations between politicians and bankers, greasing the bearings on the revolving door between the two professions. Take Ivanhoe Donaldson, former SNCC organizer, mastermind of Atlanta Mayor Andrew Young's first race for the House of Representatives and long-time confidant of Washington's Mayor Marion Barry. When Donaldson left his post in Barry's administration in 1983, he became a vice president in E.F. Hutton's public finance department. (Hutton was proposing at the same time an innovative plan whereby the District would float $30 million in mortgage revenue bonds.) Donaldson is following a path well trod. Maynard Jackson, the previous Atlanta mayor, is now a partner with the Chicago bond counsel firm of Chapman and Cutler. It may not surprise you to learn that Atlanta's retinue of financial advisors includes both E.F. Hutton and Chapman and Cutler.

Another form of chumminess is requiring a city's real bond counsel to split the fees with another firm that has close ties to the mayor. Mayor Barry, for example, practices a form of affirmative action for lawyers: all bond counsel fees for D.C. industrial and non-profit revenue bonds are split with the "minority co-counsel" firm of Reynolds, Mundy and Gibson. People I talked to who have dealt with the firm on D.C. bond issues couldn't say what work, if any, the minority co-counsel does. "How do you split the work when you're giving one opinion?" my bond counsel friend asks. "It's like two barbers giving you a haircut."

Such fee-splitting might at least prevent the politically connected firm from making a mess of things. During the late seventies, just as New York City was trying desperately to regain the confidence of the investment community, the

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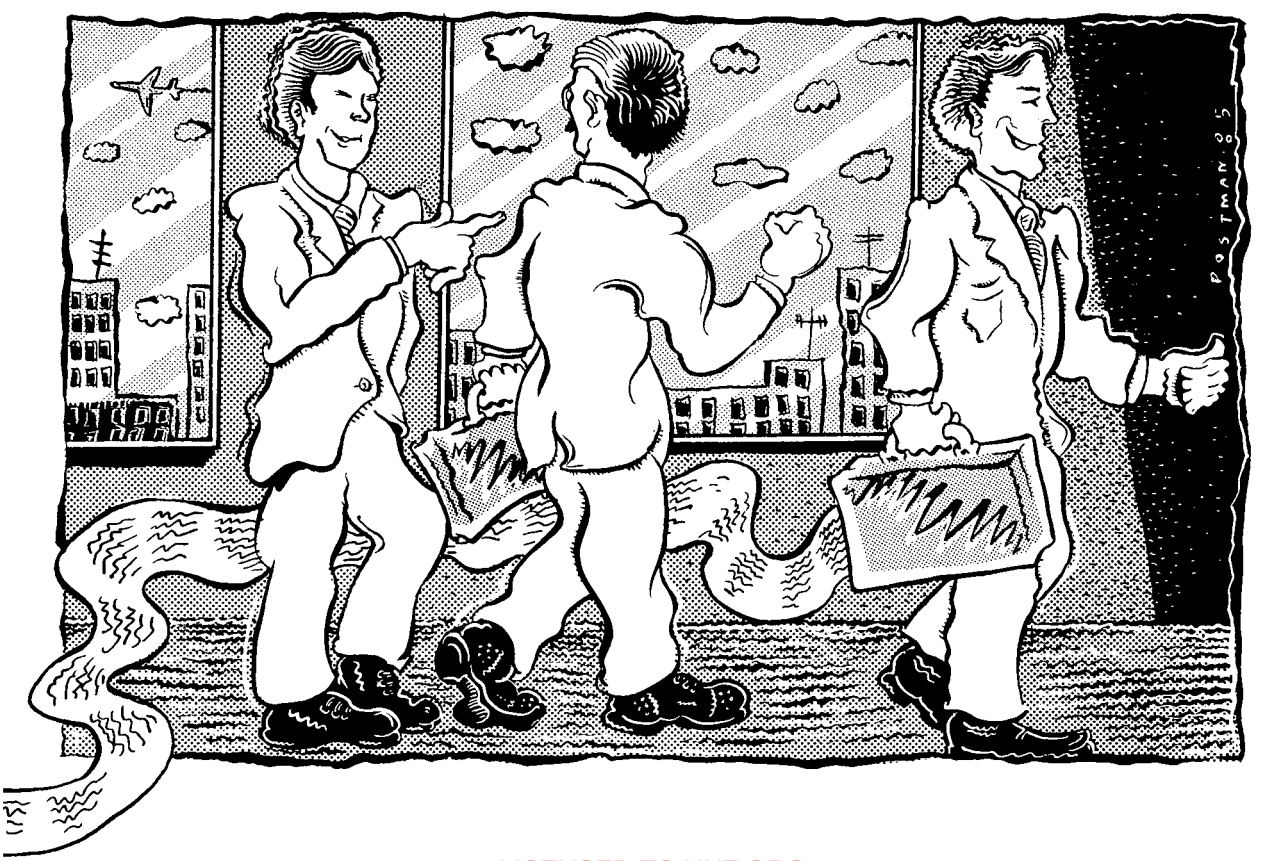
city's comptroller, Harrison Goldin, chose as bond counsel the firm of Rogers & Wells, whose partner, Melvin Schweitzer, is a friend and political ally. Not only did Rogers & Wells overcharge the city by several hundred thousands of dollars; but the firm's almost total lack of experience rendered New York's bonds unmarketable. The city then had to hire a second firm, Wilkie, Farr & Gallagher, to issue the opinion, at an additional cost of $750,000.

Bye bye boilerplate

"Maybe I'm a product of a different era," Carl Trauernicht confided one day. "I just think things ought to be conducted on a higher level." After two decades of competition and innovation, it's hard to see how anyone's lot has improved—except for that of a few thousand bankers and lawyers. "The change that is most disturbing to me," says Arthur Hausker, reminiscing over his years in the business, "is the intrusion into the marketplace of so many players who are middlemen, so to speak, who siphon off large profit without encouraging sound financing on the part of state and local governments."

Not that the new, souped-up bond bankers and lawyers aren't working hard. The boilerplate days of the gentleman bond counsel are over. "It's not the business it was 20 years ago," my bond counsel friend says. "I don't know anyone with his feet on his desk loafing. It's just too competitive."

I don't doubt it. Watching a tired and preoccupied attorney nurse a cup of coffee behind a desk piled high with documents, listening to him describe his 12-hour days as the phone interrupts the interview, I don't need to be convinced. I feel guilty for taking up his time. The work he does is complicated, tedious, and stressful, and he has to hustle to get it. It is this grueling competition among capable professionals that the proponents of tax-exempt municipal bonds confuse with efficiency and productivity. Better this, they like to claim, than a large bureaucracy to administer an outright subsidy. Perhaps. But at least with a bureaucracy you know that smart and ambitious people will turn to more useful work. "I definitely believe it's a crime," says my bond counsel friend, "that all these ableminded people spend their time dinking around with this minutiae!" ■



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MEMO OF THE MONTH

General Services Administration
Office of Policy and Management Systems
Washington, DC 20405

Date: JUN 28 1984

Reply to Attn. of: Office of Policy and Management Systems (AT)

Subject: Report on Review of Hotline Allegations Concerning Parking at the General Services (GS) Building - A30792/O/F/84/05/31

To: Inspector General (J)

I have reviewed the travesty you call a report on parking at the GS Building, and I do not agree with anything it says except your auditor's conclusion that we administer the parking program fairly and equitably. It is my position that the Office of Policy and Management Systems is in compliance with FPMR Temporary Regulation D-69, and there is no need to modify the GSA order implementing its provisions.

In our letters of April 5 and April 27, we have provided our rationale for managing the parking program at the GS Building. Your final report has presented no information that would change our position that the assignment of parking spaces is a management call that is made at management's discretion, as long as the procedures do not violate the Government-wide regulations. It would border on insanity for me to respond seriously to an audit report that goes to the absurd lengths of criticizing us for assigning an unusual-hours parking space to the Administrator on the basis that the justification on his request states "Administrator of GSA."

I personally resent the fact that you continue to waste the resources the taxpayers are providing you by conducting recriminating audits and investigations of dubious merit, and I abhor the fact that my staff is forced to waste their time and energies in responding to them. I believe that the taxpayers and the employees of this agency have every reason to expect more integrity than you are prepared to deliver. I do not intend to weaken the management structure of GSA by setting the precedent of adopting a recommendation that we do not agree with and for which we cannot trace logical thought patterns from findings to conclusions to recommendations.

We operate the limited parking facilities at the GS Building on behalf of the Administrator in order to assist him with the execution of his programs. The Administrator has always expressed complete satisfaction with the fairness and efficiency with which we assign spaces. We have no more intention of screwing up a system that works so well, just because you audit it, than we did of knuckling under to your excessive demands for parking spaces for your staff.

WILLIAM A. QUINKSCALES
Associate Administrator

cc: The Acting Administrator (A)
Director of Audit Resolution (ATOA)

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Why California *Hates* Politics

Last May I moved from the East Coast to Los Angeles, California. The theory behind the move, as I tried unsuccessfuly to articulate it to my friends, had to do with politics. I liked politics (and politicians) and I wanted to "get involved" in political affairs in my hometown. Polls showed the public was ripe for an alternative to conventional liberalism. Time to stop writing about such ideas and start helping put some of them into practice. I envisioned legions of citizens ready to march out of the libraries (where they had been secretly reading copies of *The Washington Monthly* and *The New Republic*) and into the streets and voting booths.

I still think I was right—on many issues, like the need to overcome the pull of interest groups, to encourage entrepreneurship, to reform the military and to redirect unionism, what has been styled as "neoliberalism" now either is or is fast becoming the conventional wisdom. But I was also wrong, because on at least one crucial subject what I had hoped was the new wisdom is not selling.

That subject is politics itself. I naively saw politics as the democratic means by which the changes on all the other subjects are supposed to come about. But I discovered that in trendsetting California the public seems to regard politicians, whose ranks I aspired to join, with a suspicion normally reserved for proprietors of day care centers. The recent state and local elections constituted an orgy of pol-bashing extraordinary even by Mark Twain standards. It seemed as if there was a generic ad, used by both sides of every issue, and its message was "Don't let the *politicians* get away with it!"

The hottest battles in California last year were not campaigns for office but ballot initiatives. California traditionally has interesting referenda, and before every election California voters get a fat pamphlet from the secretary of state containing the arguments for and against the latest crop. When I was growing up, this pamphlet was a showcase of responsible democracy, with calm, cogent essays explaining the pros and cons of legalizing marijuana, or building more schools, or calling for negotiations in Vietnam. The whole thing could have been drafted by the League of Women Voters as a civics lesson for a teenager who looked forward to exercising his franchise.

This year's pamphlet was different. A good example of the new fashion in ballot arguments was the one for Proposition 39, an initiative sponsored by the Republican governor, George Deukmejian, to set up a commission of retired judges to redraw the district lines established by

Mickey Kaus is a contributing editor of The Washington Monthly.

by Mickey Kaus

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the Democrats earlier in the decade. It read, in part, as follows (emphasis *not* added):

"You see, the Legislature is supposed to draw district lines—the process known as reapportionment—so that citizens are fairly and equally represented in the State Legislature and Congress. *Instead*, THE POLITICIANS *have willfully corrupted the process* to advance THEIR OWN PERSONAL AMBITIONS to remain in office or seek higher office. . . . SIMPLY STATED, *the politicians are placing their own interests*—their own job security—*far above their duty* to the Constitution and, most importantly, *their duty to us*."

The theme of the pro-39 campaign was "Fairness *not* Politics."

Needless to say, the anti-39 Democrats were not going to let this grievous charge go unanswered. They responded with the seemingly arcane argument that allowing former judges to draw district lines would mire the state's judiciary in—you guessed it—politics. This point was driven home with a television ad showing a silver-haired judge in a swivel chair literally being dragged off the bench and into a smoke-filled backroom where he is surrounded by fat, sweaty, pinkie-ring types and forced to promise, "Don't worry. . . boys, when the time comes I'll take care of our political party." The ballot argument characterized Proposition 39 as a "political brawl" started by "self-interested politicians" that would lead to "more political shenanigans" and "secret backroom political deals." "Enough is enough! It's time to send a message to the politicians of both parties. Stop playing politics at our expense!" In what is surely one of the great achievements of modern political advertising, the backroom Democratic politicos who had gerrymandered the state succeeded in seizing the anti-politician high ground, defeating Proposition 39 by ten percentage points.

Maybe reapportionment isn't a good example—it is probably inevitable that a campaign about gerrymandering will include talk of backroom deals. There were other propositions on the California ballot—Proposition 40, for example, a measure to limit campaign contributions. The maverick Republican who sponsored the initiative argued that "the politicians won't change a system which is run for their benefit." Fair enough. But the opponents of Proposition 40—who included most of the state's politicians—were not to be outdone. "Remember—PROPOSITION 40 WAS DRAFTED BY AN INCUMBENT POLITICIAN TO KEEP INCUMBENT POLITICIANS IN OFFICE," their ballot argument charged. They seized on a minor provision of the proposed law that would have provided limited matching funds for candidates opposed by wealthy individuals (whose spending on their own behalf may not be regulated, according to the Supreme Court). "Do you want YOUR TAX DOLLARS to be spent to PROTECT THE JOBS OF INCUMBENT POLITICIANS?" Voters were asked to "imagine how much harder it will be to keep political candidates from spending more public money on the most important thing in their lives: getting elected and reelected!" The TV spots accompanying this campaign showed a slick, obviously well-pampered politician putting golf balls on his office carpet and wondering out loud to an unctuous crony what else he could get the public to pay for. His face lights up as he has a revelation: "Why shouldn't their taxes pay for our campaigns, too?" Proposition 40 lost big.

Anti-politician rhetoric was used by both sides of each of the other three major initiatives, including Howard Jarvis's latest tax-cutting crusade ("HIGH-TAXING POLITICIANS" vs. "Opens many new loopholes for the court and politicians to 'interpret' ") and a welfare-slashing initiative ("Politicians are spending billions of your tax dollars" vs. "Let's not play politics with the elderly"). Overall, the California ballot pamphlet featured no less than 69 unanimously pejorative references to "politics" and "politicians." There are only a handful of favorable references to elected officials ("legislators").

Politicians would resort to such hysterical self-damnation for a single reason: they think it works. "The state of the art has come down to what politician can best attack politicians as a class," says one veteran Democratic campaign manager. An archaeologist of the future, coming upon the dusty microfilms of the 1984 California election, might conclude that these "politicians" must have been some alien race that had invaded the West Coast to exploit and oppress the indigenous human species.

As I drove around Los Angeles for two months while being bombarded with anti-politician radio ads, I thought of how horrified old-fashioned civic groups like the League of Women Voters

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In essence, politics is to government what capitalism is to the economy: the crude but effective engine of accountability.

must be at this depiction of the electoral process. How could the kindly ladies of the League hope to encourage people to vote, to participate, if the candidates and parties they would be voting for were routinely vilified as self-serving scum? Then one of the League's new state-of-the-art get-out-the-vote spots came on my radio. The announcer began: "Every day, *politicians* tend to run our government into the ground. . . ."

Civic marsupials

Another definition of "politician," of course, might be "public official who is accountable to the people." Politics, in this sense, is democracy—the mechanism by which, as the League would put it, "your vote counts." Votes have been counting less and less over the past half-century as decisions that were formerly made by elected politicians have been taken over by courts and bureaucrats. The solution to this problem—the way to give citizens more power over their destinies—is to give more discretion to politicians, who (unlike civil servants) may be chosen, and un-chosen, by the people. In essence, politics is to government what capitalism is to the economy: the crude but effective engine of accountability. It is the solvent of bureaucracy.

Unfortunately, California voters seem quite capable of passing F. Scott Fitzgerald's test of intelligence by hating politicians and bureaucrats simultaneously. More ominously, when it comes down to a choice, they seem to prefer the bureaucrats.

In June of last year, for example, the voters passed judgment on another slew of propositions, including two related proposals designed to increase the rate of return the state earns on its pension fund assets. The first broadened the range of investments available to pension fund managers—basically, allowing them to make riskier investments in order to earn a higher return. A companion measure, Proposition 22, would have exempted the managers who do this investing from civil service restrictions. There was no organized opposition to this exemption—it was even endorsed by the state employee unions, who, when it came to handling their own pension money, wanted someone who could be fired. The only ballot argument against the idea was written by a Sacramento attorney and gadfly who makes it his business to supply opposing arguments to measures when no one else can be found to do it. Yet of the nine measures on the June ballot (including one to cut the staffs of the *politicians* in the legislature) the only one to fail was Proposition 22's innocuous-looking civil service exemption, which lost by a margin of 53-47.

In November, Los Angeles voters considered a far more thoroughgoing challenge to the city's civil service—a system that, like marsupials in Australia, has evolved into a rather peculiar animal. Like many other cities, Los Angeles has an elected mayor and city council. Unlike any other major city, Los Angeles also has a system of citizen's commissions, appointed by the mayor, that in theory set policy for most of the 32 city departments. After he has filled these commissions, however, the mayor has relatively few powers left. The actual managers of the departments are paid like private sector executives—several earn in six figures—but they must be appointed from those scoring highest on civil service exams (with enough bonus points given for seniority to virtually eliminate the possibility of bringing in someone from outside). Only a handful of the department managers may be fired by the mayor without extensive administrative and judicial hearings—the equivalent of the president not being able to fire his cabinet. Indeed, the courts have been so solicitous of civil servants' rights that mere "incompetence" and "insubordination" have explicitly been held insufficient to justify a dismissal.

Blessed with this firm guarantee of tenure, Los Angeles's top civil servants are free to violate the

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traditional image of quiet, apolitical bureaucrats efficiently carrying out the policies ordered up by leaders whom the voters have chosen. In particular, Los Angeles has had a series of outspoken police chiefs who have freely intervened in local politics, publicly telling off the city council, flaunting their independence in a way that Paul Volcker, who must at least pay lip service to the wishes of elected officials, could only envy. The last two police chiefs have used their celebrity to run for public office. The current chief, Daryl Gates, makes $106,968 a year, plus fringes, rides in a free chauffeured car, exercises more power than any city councilman, and yet (unlike those *politicians*) bears virtually no risk of losing his job. Nice work if you can get it. In Los Angeles, Gates has a public profile only slightly lower than Eddie Murphy's. He openly scorns Mayor Tom Bradley, although after boasting how much he would "enjoy challenging" Bradley in this year's election he decided against running when he concluded he might have to give up his tenured position to do so.

In 1983, the city council tried to inject some accountability into this entrenched officialdom. The means was to be a new "Management Service," composed of most department heads, who would be appointed by the mayor from a larger list of candidates and who could be dismissed by the mayor and a majority of the council (or by two-thirds of the council acting alone). The police department was exempted—but that didn't stop Gates from campaigning against the proposal (on his "own time," of course) by describing it as "a giant step backward into the dark age of Chicago-style patronage." Employee unions also fought the plan, and in a hotly contested election it was defeated by a margin of 53-47.

Last November the council was back with a similar reform, an "Executive Service" that would include the police chief. But this time the advocates of political accountability had a few scandals to work with. The city planning director had been caught promoting his own "non-profit" tourism business out of his office. Because civil service laws prevented the mayor from disciplining him, he had been allowed to set his own punishment (a six-week unpaid vacation). The police department was caught collecting information on innocent citizens and, more important, resisted criticism from residents of poor neighborhoods who claimed that too few cops were deployed in their areas.

Even so, the "politicians" decided not to wage an active campaign. Rather than rouse Gates and the unions they opted for a "sleeper" strategy, counting on a high presidential election turnout and a bland-sounding ballot argument to sneak reform through. Mayor Bradley supported the measure, but not very loudly. ("It's probably better not to say much," one of Bradley's deputies told the *Los Angeles Times*. "The more debate there is the more political charges are made.") Gates did not wage much of a campaign either, although he did sign the ballot argument opposing the measure, after warning that it would bring to the city "bossism" of the sort practiced by "the infamous aldermen of the East."

In this very different environment the reform measure. . .well, it failed again, by a margin of 53-47.

The Bilandic factor

The conclusion seems unavoidable. The voters of California—53 percent of them, anyway—don't want any truck with *politicians*, and this loathing is strong enough to doom any attempt to restore a measure of political control over the day-to-day workings of the government. In trying to figure out how my fellow voters have come to hold such self-defeating opinions, several explanations loom large.

First, there are peculiar local factors that tend to enhance Californians' contempt for politics, the most important being a campaign-financing system that, even for modern-day America, is scandalously out of control. The price of California campaigning has escalated faster than California real estate—it now costs an average of more than $300,000 to win a contested seat in the 80-member *lower* house of the state legislature, and Tom Hayden spent $2 million winning his. At the same time, there are virtually no controls on campaign contributions from either PACs or individual lobbyists. The resulting legalized money-grubbing would be enough to make Adam Clayton Powell blush (although it doesn't seem to faze Willie Brown, the flamboyant state assembly speaker who is the conduit for much of the money and the focus of much of the anti-politician sentiment). In equally uncontrolled Los Angeles, elected officials have taken to amassing

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huge war chests to scare off challengers and finance their own campaigns for higher office. Zev Yaroslavsky, the city councilman who sponsored civil service reform, has more than $900,000 in the bank. No wonder Gates scored points by attacking politicians who want to "keep themselves in office for life."

On the other side of the equation, Californians respect their state and local civil services at least in part because these bureaucracies don't appear to have reached the state of bloat and immobility achieved by the federal government, or by many local bureaucracies, such as New York's. When Chief Gates calls Los Angeles "the best-run city in the United States" his words ring true for many people, especially refugees from the decaying cities of the Northeast. Citizens in Southern California do not face interminable hassles obtaining drivers' licenses. The city-run utility is efficient. Gates's police department, despite certain proto-fascist tendencies, is also generally honest and competent. And, as someone who pays taxes in both California and New York, I can attest that California still has a lot to learn when it comes to thinking up ways to make tax forms completely indecipherable. Much of the relative health of California's bureaucracy may be due simply to its youth (after all, New York's civil service was once a great argument for socialism, before its arteries hardened), but that doesn't negate the if-it-ain't broke argument.

But even where it's broke, there are undeniable reasons why sane citizens tend to sympathize with the civil service in its ongoing war with politics. Foremost among these is the James Watt Argument (or what, in Los Angeles, we would call the Sam Yorty Argument). This is the prospect of a politician or political appointee so incompetent or dangerous to the public health and safety that a tenured bureaucracy—even, or perhaps, *especially*, a clogged, foot-dragging bureaucracy—seems a vital safeguard.

Watts and Yortys will happen. That's a good reason to keep at least some civil servants in place at all levels of government to serve as watchdogs and whistleblowers. But does it mean elected leaders are so untrustworthy that they must be surrounded by a solid phalanx of unfireables? The beauty of politicians, after all, is that when they are revealed as fools or crooks—or even when they just screw up—they can at least be quickly removed. Yorty was defeated. Watt was, in effect, fired. Jerry Brown was banished from office in part because he botched California's reaction to the "Medfly" infestation. That's accountability, and, where politicians get to hire their own staffs, the message tends to be communicated rather forcefully down through the ranks. Ask any Washington reporter and he will confirm that congressional staffs—which are 100 percent political, 100 percent fireable—are usually more competent and dedicated than their civil service counterparts.

Even political bosses from the "dark age of Chicago-style patronage" had to worry about delivering government services. Ask Michael Bilandic. Remember him? As successor to Richard Daley as Chicago's mayor and "boss," Bilandic may have entertained crude fantasies about his power—but then it snowed. When city snow plows failed to clear the streets quickly, Bilandic was quickly dismissed by the voters. The same fate has yet to befall the bureaucrats in the Los Angeles police department who allowed illegal spying—or the federal civil servants at the Army Corps of Engineers who built useless dams,

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the marketing geniuses at the Treasury Department who gave us the Susan B. Anthony dollar, or the GS-15s in the Pentagon who bought us a $14-billion armored personnel carrier that tends to incinerate soldiers seated inside.

And what if voters make the *right* choice, electing an honest politician who sincerely wants to accomplish something worthwhile? Well, then the same civil service obstacles that may prevent a Watt from doing too much damage will likely prevent someone else from doing too much good. Indeed, Watt himself may be expected to live on at the Interior Department in the form of his employees and sympathizers who will obtain civil service tenure before the end of Reagan's second term, becoming a permanent impediment to any pro-environment president who might get elected in 1988.

In a civil service state, politicians get to sit in large leather chairs, enjoying the publicity and perks of office while issuing orders that may or may not be carried out with any degree of fidelity or alacrity. What they cannot do is what Peter Ueberroth did—actually *run* a large enterprise from top to bottom, from start to finish, and take the credit or blame for the results.

When publicity and perks rather than real accomplishment are what an office offers, it naturally tends to attract people who are interested in publicity and perks rather than real accomplishment. It is not the Ueberroths of the world who seek elective office in Los Angeles when it is the civil service that actually runs the city and sees that the garbage is picked up. No wonder the city council is regarded by the voters as little more than a circus of grandstanding clowns. Grandstanding is about all Los Angeles councilmen can do.

Disingenuous Devine

The result is a vicious circle. Political offices with little power attract politicians who can be trusted with little power. Voters, realizing that whomever they elect can't do much good or evil anyway, lose the sense of responsibility that would cause them to choose their leaders more carefully. Often they stop voting. Contempt for the politicians grows, and protecting the basic functions of government from "political interference" comes to seem all the more important.

This cycle has been going on for so long that even the sworn enemies of the civil service now seem unable to stand up and actually defend *politics*. It was no accident that the sponsors of Los Angeles's "Executive Service" plan presented it as a bland management improvement. "City government is a big business," the pro-reform ballot argument began. Department heads needed more "management training." Explaining this MBA-style pitch, Mayor Bradley's deputy boasted, "Our side has an efficiency ring to it." The reformers denied vigorously that their changes would do anything as nefarious as inject politics into government.

In Washington, President Reagan's personnel chief and designated bureaucrat-basher, Donald Devine, seems to be taking the same disingenuous approach. Devine recently proposed that the federal government hire more short-term employees, who can be fired, and fewer permanent, tenured employees. This could be a dramatic change that would allow an incoming president to bring into government thousands of activists committed to making a new administration work—while at the same time replacing a good many opponents who might drag their heels. But Devine has billed his plan only as "cost-efficient," because temporary workers are cheaper. It is "a simple management decision," he says, rebutting charges that it will politicize hiring and firing.

Hey, everybody, the whole point of changing the civil service is to politicize the government. Adding politics is how we will make the government accountable again. After the recent elections in California, I understand why Donald Devine might not want to mention this. Americans may have grown so used to being ruled by unelected leaders—by Gerald Ford, by the Supreme Court, by the Paul Volckers and Felix Rohatyns and the Daryl Gateses—that they have forgotten what democracy is. Perhaps school children should be required to chant quietly for an hour every morning, like a mantra, "Politics is Democracy." Perhaps democracy really *is* a silly way of governing, as brooding mandarins from Walter Lippman to Herbert Marcuse have contended. That, however, is the choice: to be governed by the experts or by the people. I'll put my faith in the people. But it would help if 53 percent of them weren't on the other side. ■

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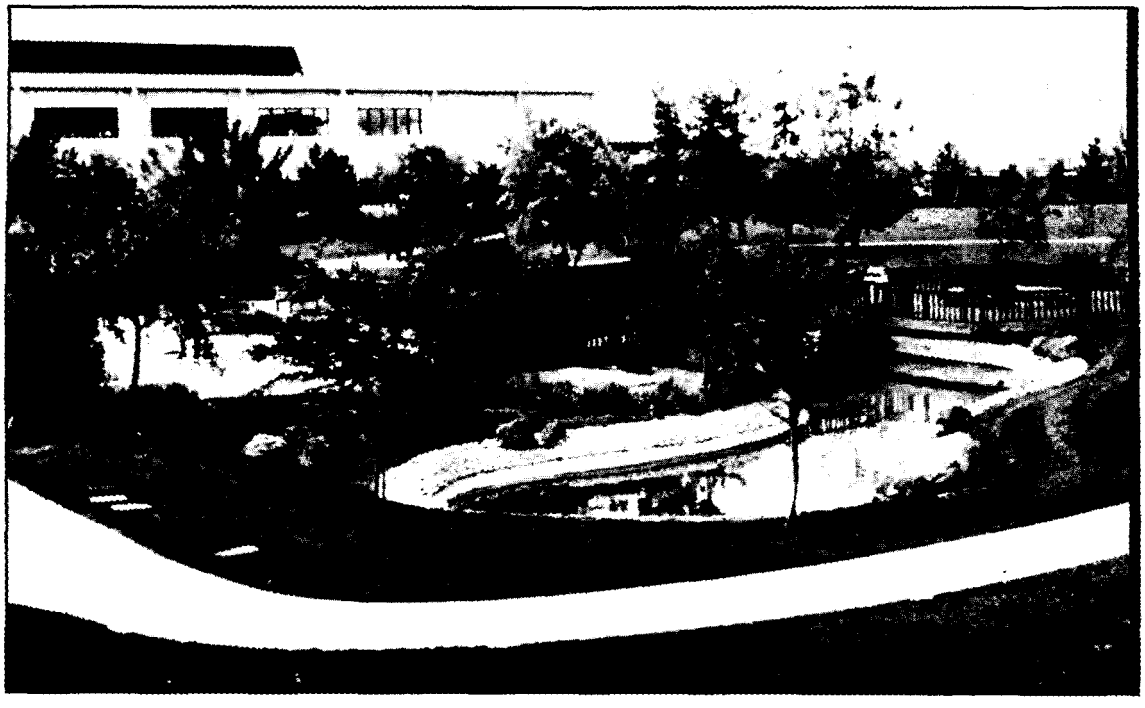

Lean and aggressively committed to results, National Semiconductor represented the best in American capitalism until it started cheating the government—and threatening our safety.

The Dark Side of the Force

by David Sylvester

On June 3, 1980, three miles inside Cheyenne Mountain, Colorado, the computers of the Strategic Air Command signaled that Soviet nuclear submarines had launched two missiles toward the United States. Within 18 seconds, the terminals showed 22 Soviet missiles. Then 222. B-52s carrying nuclear bombs were prepared for takeoff while SAC frantically sought to confirm the impending attack through its other monitoring sites.

But the twos kept on coming. By the time the computers were reporting the approach of

David Sylvester is a business writer for the San Jose Mercury News. *This article grew out of an investigation for the* Mercury News *by Sylvester and David Willman.*

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2,222,222 Soviet missiles, SAC was convinced that something was wrong with its computers. After three sleepless nights of scouring, technicians discovered the culprit: a No. 74175 silicon chip in a communications multiplexer, an electronic device that converts information into messages for transmission.

The false alarm at Cheyenne Mountain was a harrowing lesson in how failure in the smallest link in the system can cause the machinery of nuclear war to whir into action. And chips are not just in the SAC computers. They have become the nuts and bolts of the electronic military age. In a war, they would navigate pilots, aim guns, guide and detonate nuclear warheads. It is thus especially disturbing to learn that semiconductor companies have regularly been caught cutting corners in testing military chips. Over the past four years, five semiconductor companies have admitted to "irregularities" in their procedures, ranging from minor infractions to full-scale cheating on critical heat tests. No one has traced a failure in the operation of a weapon or military communications to these shortcuts, but the incident at Cheyenne Mountain illustrates the potential dangers they raise.

The cheating might be easier to understand if it were done by more established defense contractors like General Dynamics and Pratt & Whitney, whose relationships with the Pentagon have grown cozy over the years. But the five companies—Texas Instruments, Advanced Micro Devices, Signetics, Fairchild Camera & Instrument, and National Semiconductor—are all young, entrepreneurial firms of the sort currently being hailed in books like the best-selling *In Search of Excellence*. Over the past 30 years, they have outsmarted and outcompeted the old guard in developing semiconductor technology. To win and maintain their place in the market, they helped refine attitudes that are now widely studied and imitated: they are lean organizations that offer high reward for individual performance and an inspiring orientation toward results.

How can these companies drift from the diligent attention to quality and detail for which they are so often touted to violate safety agreements so brazenly? This question has nagged at me and at my colleague, David Willman, ever since we reported on the fraud at one of these companies—National Semiconductor—in a series we wrote last June for the *San Jose Mercury News*. National is, in the eyes of the law, the only criminal among the five semiconductor companies—the only one to face indictment, plead guilty to 40 counts of fraud, and pay fines and penalties for not testing its military chips fully. But it would be simplistic to conclude that the fraud at National is just an example of corporate skullduggery in a morality play about an evil corporation taking advantage of an unsuspecting defense establishment. Rather, I see the story of how dozens of National employees became involved in deception and fraud as a subtle and complex example of what happens when men and women are subjected to certain unchecked institutional pressures. What the workers at National did was unquestionably wrong. But after I got through examining what they knew and when they knew it, I found myself wondering something else: why did they do it?

The Animals of the Valley

Every morning just before 8 a.m., nearly 10,000 employees choke the highways near the main corporate headquarters of National Semiconductor in Santa Clara, California. Among them on a typical day in 1981 would have been National's president, Charles E. Sporck, driving his pickup truck through the bumper-to-bumper traffic on Semiconductor Drive. It was largely his traffic jam. When Sporck first arrived at National in 1967, leaving a job as general manager at Fairchild, National was a small, floundering company. Fourteen years later, the orchards that had surrounded National were gone, replaced by a small city of flat bunker-like buildings. National was now a $1 billion company, number 287 on the Fortune 500.

In some ways, Sporck's National still resembled the struggling company of 1967. It had no reserved parking for executives, and Sporck maintained a cubicle of an office that looked no different from any other cubicle and was divided from the others by five-foot high partitions. He could hear the clatter of typewriters, the talk of secretaries, and bits of conversations all around him. Sporck hated to waste money on things like fancy offices. During one period when chip orders turned soft, he required all spending requests for more than $2,000 to carry his personal signature. This demoralized some subordinates. "I can remember running around the building trying to find him to get his signature," remembers one manager, who wanted to spend $20,000 on a piece of military testing equipment.

Stories about Sporck's tight-fisted spending habits are the stuff of legend at National. One

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afternoon at the plant in Danbury, Connecticut, a manager noticed that workers were still using the company's putting green at around 2 p.m. The manager picked up the telephone, and the next thing people knew, a bulldozer was plowing under the fine carpet of grass. Another story goes that during the company's early days, it didn't mow the lawn in front of its buildings. As a joke, one executive bought a goat to graze on the grass. Years later, when National was landscaping the lawn with an artificial pool (see photograph, page 32), some wondered why Sporck would spend the money. "You don't have to mow water," he reportedly said.

Such attention to cost-cutting has become increasingly important to chip-makers over the years as they have aquired more efficient production methods to accommodate an exploding demand. Where once chip-makers concerned themselves with making a few carefully produced chips that could command premium prices, today chips are produced by the millions at a few cents each. The successful chip-maker is the one who can shave a tenth of a penny off manufacturing costs to cut prices.

High volume was a key to this goal, and Sporck could be ruthless in its pursuit. When a manager was not meeting his sales goals, Sporck's voice would be heard over the partitions and in the stairwells. Some subordinates admired Sporck's form of autocracy because they thought he was fair. "I knew if I was the recipient of his tongue-lashing, I probably deserved it," one executive told me. "He didn't just do it for the exercise." Others, particularly at the lower levels, just wore out. One military plant supervisor remembers how exhausting it was to keep hitting the difficult sales goals. Machines would break down, and he would fight to replace them. New equipment would arrive each year and take months to operate properly. The chips and processes were constantly changing. "Everything had to click in a certain amount of time," he remembers. Even when he did well, "it was like, 'if you are doing a good job, we know you can do better, so let's increase the goals,' " he says.

But Sporck was proud of his company. It had grown like a juggernaut and never lost money. Its aggressiveness had earned National the nickname "The Animals of the Valley" in *Fortune* magazine, and the marketing department had responded by issuing "Animal of the Month" awards to top performers. "People in the halls are moving twice as fast at National," is how one former employee puts it.

Peer without portfolio

On the ground floor, directly below Sporck, sat Robert Mollerstuen, the group director of the military and aerospace operations. Mollerstuen, a longtime veteran of electronics companies, was considered a friendly and capable man who demanded quick action. But there was no getting around the fact that his division was not considered the fast track at National. Things had changed considerably since the early days of semiconductor manufacturing, when the military had been "the creative first user" of the integrated circuits, from which today's semiconductors evolved; in just six short years, from 1962 to 1968, military demand for integrated circuits had gone from being 100 percent of a $4 million market to being 37 percent of a $312 million market. While this was obviously an enormous increase in business, the explosion of commercial uses for integrated circuits had deflated the relative significance of the military as a customer, with the result that by the late 1970s, Defense Department officials were beginning to worry that the chip industry was losing interest in supplying military needs. (Now that chips are used in computers, telecommunications, home appliances, automobiles and home electronics, the military is less than ten percent of a staggering $20 billion market; military chips accounted for less than 8 percent of National's business last year.)

As the military had grown less important to National, mil-aero had developed a reputation for collecting the deadwood employees. The work to be done in mil-aero had little cachet for ambitious and bright engineers, because the chips sold to defense contractors already were outdated in the faster-moving commercial market. In 1981, some military systems were still using the 1K random-access-memory chip, which had been invented more than five years earlier and had been succeeded by two new generations of chips. A further handicap for the department was that the heart of its work was tracking the chips through an endless array of government forms that far exceeded anything in the civilian end of the business. "If you are recruiting at a college campus, and you say you can make whizz bang MOS microprocessors or you can make military semiconductors, what would you choose?" says one former National mil-aero manager. "It's a pain in the ass, all the paperwork." Since taking over mil-aero in 1977 Mollerstuen had done bet-

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ter than his immediate predecessors in drumming up business and recruiting well-trained engineers, but the division remained, in the words of another former National manager, the "bastard step-child."

Like many entrepreneurial companies, National Semiconductor was actually a loose confederation of several mini-companies. Most of these operated as independent businesses, producing one type of chip, and to be the manager of a particularly successful mini-company was to be a company star. The largest mini-company produced logic chips, an inexpensive circuit mass-produced in the millions each week. Its director eventually rose to run the entire semiconductor division, second in position only to Sporck. The second-largest mini-company produced linear chips, far more difficult to make and commanding higher prices. The director of this division later left to found his own private firm.

In this constellation, Mollerstuen couldn't hope to shine. He produced nothing. He only assembled and tested parts that the other product managers manufactured. As if to reinforce the isolation of mil-aero, Mollerstuen did not always report to the vice president running the company's semiconductor division, as the other product managers did. Instead, he was shuffled around among a number of vice presidents and finally wound up reporting to the vice president of international operations. "He was a peer, but a peer without portfolio," says Charles Cushing, Mollerstuen's successor and a close personal friend. (Mollerstuen himself refused to be interviewed.)

At monthly profit-and-loss meetings, other product managers would pound the table and shout at Mollerstuen for running a division that was a drag on their productivity. For example, mil-aero regularly lost money for the logic group because the price of logic chips did not cover the cost of running them through extensive military testing. Even when mil-aero showed a large profit for another group, it didn't get much credit. For example, Mollerstuen had little trouble making money for the linear group, because fewer companies made these chips, which were difficult to manufacture and test. The price could range up to $8 each for some types. But the linear managers called mil-aero's profits "funny money" because they believed mil-aero took credit for the sales of other groups' products but assumed only part of the costs. The controller of the linear group put it this way to Cushing: "You don't pay your way. When I make [a sale], I know the numbers are right. When you make it, I don't have any confidence in the numbers."

Worst of all, mil-aero was always late in getting finished chips out to the customers—the defense contractors who built the weapons in which the semiconductors were placed. One reason for the late shipments was the rigor of military testing as compared to civilian testing. For example, there was nothing on the civilian side of the company that compared with "salt spray," a test in which an inspector submerged a chip in hot salt water and tried to rub off its identifying part number. Cushing remembers that one shipment was held up four months because he couldn't find an ink tough enough to adhere to one particular type of chip that was sealed in stainless steel. "Those people who were very critical of mil-aero didn't have the foggiest idea of what we had to do," he recalls.

But mil-aero created many of its own problems through disorganization. Just walking into Building D, where mil-aero's semiconductors were assembled and tested, was a shock to the uninitiated. Among the pieces of testing equipment and the engineers and managers scurrying around in white smocks, there were tall metal shelves filled with unshipped chips in cardboard boxes. Some of these chips had failed tests and were waiting for "failure analysis." But because of the disorganization, much failure analysis was never done. Printed circuit boards filled with chips ready for a heat treatment called "burn-in" were stacked on tables, on carts, on chairs, waiting to be put into the ceiling-high ovens. (These chips were required to be baked at 125 degrees centigrade night and day for one week while electricity coursed through their circuits, a process that weeded out "weak sisters.") Even more chaotic was the paperwork: crucial government reports documenting the long testing procedures were scattered on desks and in boxes or, perhaps, sent to a room grandiloquently called Archives that one employee called "a big black hole" because documents sent there might never be seen again.

A disorganized group under extreme pressure to ship chips—it was a recipe for difficulties. Rumors had circulated for some time among other National employees about what was going on in mil-aero. Whether Mollerstuen knew is unclear. If he did know, it seems certain he never suspected how seriously it would be regarded later.

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Disappearing documents

One day, when his boss was on vacation, a mid-level production supervisor (whom I'll call Ed to honor his request for anonymity) received complaints from some of his quality inspectors that supervisors had taken chips out of the burn-in ovens after only 48 hours, well before the 160 hours required by Defense Department regulations. Ed complained to his boss's manager. "He basically told me to ignore it," he remembers. "There was nothing to be done about it."

Not satisfied, he went higher up and confronted the manager in charge of burn-in. "I can't remember exactly what he said, but the gist of it was, 'We burn in these parts because failure rates justify it.' He showed me on a graph how the bad parts would be detected [in just a few hours] and that the extra burn-in wasn't needed. I said, 'You're saying on the paperwork that you're doing it.'" When Ed took it up with yet another manager, he was told, "This is a business decision that has been made. That's the way we've been doing it for some time."

Inside the mil-aero group, many managers had long thought that some of the military testing, particularly for older, highly reliable chips, was not essential. Indeed, every National employee I spoke with, whether defender or critic, repeated this sentiment. "I really felt like we were selling a good product," said one former manager who knew about the cheating. "It wasn't like knowingly sending a defective engine to the Air Force," said another former top executive. "I think it is a legal issue rather than a moral issue." After the scandal broke, Cushing conducted many tests on the chips in question under the watchful eye of Defense Department engineers. His findings: "We had data coming out our ass to show it didn't matter."

Like many rationalizations for evading a formal rule, those offered for National's cheating on the tests have some truth in them. In 1982, when the Defense Department investigated National's fraudulent testing, one military engineer who is a violent critic of National checked his computer data base for the history of bad National chips. He found failures primarily among some quirky types that always tested poorly; otherwise, he admitted, National's quality was acceptable.

But the Defense Department had bought and paid for the massive testing to weed out "the wild ones," the few that had any chance of failure, because it justifiably felt that it had little margin for error; unlike a defective chip in a video game, a failed military chip could conceivably undermine the national defense. National had agreed to do the tests and it had not done them. That was cheating.

The problem of cheating was compounded by sloppy record-keeping. From the National plant in Singapore, where the less sensitive military chips were made, documents were sometimes blotted with erasures and mistakes or marked in pencil rather than ink, which was required. Sometimes, they had been photocopied so poorly that they were scarcely legible. Once a batch of papers was mangled in the transportation from the Far East. Mil-aero's response was to forge new documents. In the offices of Building D, it was called "regenerating the paperwork." "Basically, we took a clean copy and transferred the information we could, but changed the burn-in hours and added in any testing they may have missed," said one supervisor. This paperwork was then shipped with the chips to the customers to show that all the tests were performed as specified.

While some employees sat at their desks making up these documents on the ground floor of Building D, the managers supervising quality control in the basement were also cutting corners. One 22-year-old woman supervised half-a-dozen quality inspectors. With her staff, this woman, whom I'll call Sharon, selected samples of the chips running through the testing area on the ground floor for a series of grueling tests (such as exposure to moisture or 1,000 hours of burn-in) required by the Defense Department. If too many chips failed, the entire batch from which they came, called the "mother lot," had to be rejected.

This could mean an entire new group of tests and delay of a shipment to the defense contractor by two to three months. But in production meetings Sharon had quickly learned that "the whole emphasis was on shipping and getting the parts out the door." The result: to meet a particularly important deadline, Sharon would replace chips that failed tests and select new chips that would pass. "I always felt uneasy about it, but not so much as I should have, because it was so out in the open," she recalls.

Perhaps the most instructive example of how uncontrolled the cheating became occurred in the spring of 1980, when some mid-level mil-aero managers, including Sharon and her boss, tried

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In an industry where huge volumes of merchandise must be moved quickly, National's military group, with its special testing requirements, was inevitably tempted to cut corners.

to find better ways to keep track of testing documents. "We decided this was it," Sharon told us. "It was going to stop. We were going to bite the bullet." They devised new filing systems, redesigned forms, set up methods to track each batch of chips more closely. The procedures were largely a question of detail: recording the date the chips entered the testing area, the date the sample was pulled, the number of chips pulled, when the "mother lot" moved to another testing area, even noting the four digits of the mother lot's identification number.

As Sharon found herself facing an approaching deadline for filing annual testing reports to the Defense Electronics Supply Center (an electronics warehouse that oversees military procurement), the employees undertook an earnest search for the original testing documents. "We went through boxes and people's desks and the cabinets and shelves and underneath desks," Sharon said. Bit by bit, some—not all—turned up. The testing records were mislabeled and stored in an obscure corner of Archives. Other records were on a production planner's desk. Still others were in the corners of rooms. And some were just plain gone.

How could records just disappear? "Don't ask me to explain it," Sharon says. "It was just a lack of adequate control." One problem was the rapid turnover within the department; no one stayed at his job for more than a few months at a time, including the top managers. "You couldn't go back and ask someone what happened six months ago because they weren't there." Finally, with the government deadline only a few days away, good intentions crumbled. "We decided at this point it would be a waste of time to go back," recalls Sharon. "Yes, this year we would dummy the reports. We didn't like it." She and her two most trusted line operators spent at least a couple of weeks in another department faking the documents. They used other employees' stamps, switched pens, changed their handwriting on blank new forms to create a phony paper trail. At times, Sharon would slip into her department and borrow another worker's stamp showing the employee number and initials to indicate when a test was done. "I would tell them, 'You don't know I'm borrowing your stamp,'" she said.

These stamps came to take on a life of their own. One middle manager wanted to measure how quickly the individual employees were working by following the number of times each person stamped his testing documents along the testing line. But the manager's attempts were foiled because workers were using so many stamps of former employees. So he wrote a memo listing these illicit employee stamps so his supervisors would know which ones were the fakes. Naturally, his boss quickly ordered him to retrieve every copy. But a paper trail remained in National's employee logs and telexes and memos between managers.

"Just ship me the parts"

In November 1981, Mollerstuen left National to become a vice president and corporate officer at Signetics, another semiconductor company, and was succeeded as head of mil-aero by Cushing. Two weeks later, an investigator for the Defense Criminal Investigative Service showed up at National's corporate headquarters with a subpoena from a U.S. federal grand jury for National's military testing records; two former employees had decided to tell federal agents about the cheating. Cushing had to inform defense contractors awaiting semiconductor shipments that National could not ship any more military chips until its procedures were set straight. Sales came to a halt, and National was headed for its first loss ever.

It is interesting to note how the customers reacted. When the chips stopped flowing, Cushing started receiving angry phone calls day and night, at the office and at home. But the defense contractors were not calling to denounce Cushing for undermining the integrity of their products with inadequately tested chips; they were calling to denounce Cushing for holding up shipments of chips, any chips, so they could move their own merchandise. "I went through situations where I had 15 to 18 people literally ready to give me physical abuse for not shipping the

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product," he says. A materials manager at a major electrical company called to say, "I have $30 million worth of aircraft engines I can't ship because of your damn ICs [integrated circuits], and I want to know how to clear them [for shipment]." Sometimes the calls were even more blunt. As Cushing recalls, "I guess the biggest shock to me was dealing with some of the major defense contractors and having very senior people say to me, 'I don't give a shit whether you do the burn-in or not. Just ship me the parts and give me a piece of paper that says you did it.'" According to Cushing, the contractors were motivated less by conscious irresponsibility than by a belief that National had always provided them with good working chips before; they couldn't understand what the fuss was about.

"Corporations don't do things"

In March 1984, after more than two years of investigations by the Defense Criminal Investigative Service and a San Francisco grand jury, National was indicted on 40 counts of fraud for cutting short its burn-in tests and for faking quality reports to the Defense Electronics Supply Center. The same day the indictment was handed down National agreed to plead guilty and pay $1.8 million in fines and penalties.

None of National's corporate officers or managers were indicted or even fined, a fact that aroused some justifiable indignation among many involved in the investigation. As one Defense Department attorney ruefully put it, "Corporations don't do things; people do things." The U.S. attorney defended the decision not to indict individuals on the grounds that it could not be proved that National's top managers knew of or approved the fraud. He had harder evidence on lower-level employees, but concluded, paradoxically, that it would be unfair to prosecute lower-level employees and not higher-level employees.

Some Defense Department officials felt differently. The Defense Logistics Agency launched an investigation into whether to prevent National and seven individuals, both current and former employees, from doing further business with the government, a formal procedure called "debarment." Among the DLA targets were Mollerstuen and his direct boss at National, the vice president of international operations. The issue was settled when six of the seven agreed to an informal, voluntary type of debarment that prevented them from having anything to do with government contracts for three years. (The case against the seventh was dropped.) The DLA action set off a wave of transfers and personnel changes within National, including shifting the mil-aero group to another vice president. (At Signetics, Mollerstuen was not affected substantially by the agreement because he was involved in only the manufacture of commercial chips.)

Today, National employees work under a Sporck decree that anyone found intentionally cutting a corner in testing will be immediately fired. Sporck has also instituted a system by which an employee can anonymously report suspected violations to the management for investigation. An independent quality group now reports its findings directly to the board of directors. And mil-aero has moved its central assembly and testing plant to Tucson, Arizona, where managers and line workers concentrate solely on the special requirements of the military. (This last reform had been in the works since the late seventies.)

These actions are all encouraging. But National's soul-searching has been accompanied by little punishment from the government. National was probably never in any great danger of losing its business with the Defense Department as a result of its crimes, if only because some of the projects at stake—Rockwell's B-1B bomber, for example, or Lockheed's $1.1 billion Milstar communications satellite—were high priorities at the Pentagon. National was taken off the Defense Electronics Supply Center's Qualified Products List for three months in 1982, but, as a spokesman for DESC told me, "A lot of people depend on those parts. That's always a consideration on our part—we try to get them back on [the Qualified Products List] as quickly as possible." While the DLA was looking into the possibility of debarment in 1984, National was banned for another three months from selling chips to the Defense Department—with the fairly large loophole that the company could continue to supply chips if it was the sole source. Of course, National's conviction did have an intangible ripple effect on its business as new contracts that it might have won before the scandal broke went to other companies. Still, one can imagine punishment harsher than six months'-worth of restrictions on doing business with the military.

People like us

How rampant is cheating like National's? No one knows for sure, but consider an anonymous

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telephone call from a woman who worked in another semiconductor company that David Willman and I received after the *Mercury News* series ran. I retell this story here because, although unconfirmed, it gives a picture of the kinds of stories that float to the surface in bits and pieces. It illustrates an atmosphere that must radically change in some of our "best-run companies" if they are to continue to deserve the praise currently heaped upon them.

"When I came from [another company], I had very good training, and I was adamant about following the government regulations," she said. One day on the new job a quality supervisor from a major defense contractor visited to check a set of chips. On performing the tests for the supervisor, she found, unbeknownst to him, that the chips were failing. "It was only he and I in the building. It was a Saturday. I said, 'Hey Bob, what happens when these fail?' That's when he told me about the back-up system [in a warhead's guidance system]." Becoming nervous, she slipped away to call her boss at home. "I said these things are failing, and I don't know what to do. He said, 'Lie.' I was floored. I said, 'I can't do that.' He said, 'Well, then just fake the report.' " Instead, she simply dropped the tray on the floor, ruining the chips: "I didn't want to be responsible to have my stamp on it." Although she expected Bob to ask her to test another 50 chips, he never did. He accepted the lot without looking through the microscope himself to see what he was buying: "He didn't know it was bad."

I gave her the hotline number of the Defense Criminal Investigative Service and implored her to call me back if she felt she didn't receive a satisfactory show of interest. Later in the day, she called again to tell me an investigator would visit her house soon to take her story. That was the last I heard from her. I still do not know whether the investigator found her story accurate, but I found her telephone call, the distraught sound of her voice, the conviction and long-suppressed anger, as haunting as anything we turned up in our research.

Perhaps it was the reminder that when there's a terrifying malfunction in our defense network—as there was that day five years ago in Cheyenne Mountain—the reason might be no more sinister than a company's eagerness to keep its shipments moving. The people who feel these pressures are not Strangelovian madmen, but people like this woman: people like you and me. ■

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Rather than complain about foreign competition, Big Steel should look at mini-mills like Chaparral here at home.

America's Successful STEEL Industry

You don't have to be an economist to know that the big steel companies are in trouble. Since 1977 they have closed or idled some 20 plants or parts of plants. Production capacity has shrunk by about ten million metric tons per year—roughly 8 percent—and from 1979 to 1982, the number of steelworkers with jobs plummeted from 453,000 to 247,000—45 percent.

If you listen to the industry lobbyists who troop down to Washington each year to demand government relief, you probably think that foreign competitors are to blame for big steel's troubles. The Japanese and Koreans aren't fair traders, the lobbyists argue; they subsidize their steel industries and throw up tariffs to keep out American products. To compete, this argument concludes, we need import quotas on foreign steel.

But there's a significant flaw in this argument—a lot of the competition is already inside the gate. While the heads of big steel have been in Washington seeking protection, a high-tech, non-union sector of the steel industry right here in the United States has been quietly snatching up their markets. These "mini-mills" now have 20 percent of the domestic steel market and match the share taken by foreign competitors.

How have the minis managed to succeed in an industry littered with failure and bankruptcy? To find out, I paid a visit to one—the Chaparral Steel Company in Midlothian, Texas. In 1982, the year U.S. Steel's losses totaled more than $2.5 billion, Chaparral turned a profit of $11 million. Granted, mini-mills like Chaparral owe much of their success to their ability to ride piggyback on their big, inflexible competitors by working from scrap steel (more on this later). But to a surprising extent the success of mini-mills in general, and Chaparral in particular, rests on elementary principles of management that are accessible to big steel—principles that American industry has neglected for too long.

Gobbling refrigerators

Midlothian is not the first place you'd think to look for a successful steel mill. A ranch and farming community 25 miles outside of Dallas with a population of 3,000 before the mill was built, the town was best known for its rolling hills, similar to those of its Scottish namesake. But in 1973, when Texas Industries (TXI), a cement company, and Co-Steel of Canada, were looking for a place to build a steel mill as a joint ven-

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by Kurt Eichenwald

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ture, Midlothian seemed perfect. For one thing, it was near large power supplies, highways, and railroads. The choice was sealed when Gerald Heffernan, Co-Steel chairman, saw the Chamber of Commerce bulletin board, which proclaimed, "Need money? Try working." Most people in the area had never worked at a steel mill, and that suited management just fine. "We didn't want people who had learned bad work habits," one executive told me.

TXI's move to start up its own steel company seemed like good business sense. After all, it was in the concrete business, and every concrete building needs steel reinforcement. So, thinking there was an impending reinforcing bar shortage, TXI decided to set up its own steel mill. Unfortunately the shortage never happened, so when Chaparral first began churning out steel, a glut of reinforcing bar put the company in the same boat as big steel—the supply exceeded the demand. "We had to diversify, and fast," Chaparral's vice president, Dennis Beach, told me.

Fortunately, Chaparral was a mini-mill. The term "mini-mill" is a bit of a misnomer; mini-mills are not just smaller versions of the bigger, "integrated" mills that convert pig iron into steel. Rather they are recycling plants. Instead of making steel from scratch, they gobble up scrap steel like junked cars and refrigerators and convert them into usable steel products. This allows the mini-mills to eliminate several steps in the steelmaking process. The result: enormous flexibility.

In an integrated plant, a combination of iron ore and scrap is mixed in a furnace. After six hours, you have molten steel. Once the brew is cooked, it's generally poured out in the form of ingots. Like all cast steel, ingots have to be rolled like dough into proper shape. Because ingots usually have defective surfaces that have to be ground down or burned off, they are reheated and rolled one more time into their final shape.

In a mini-mill, by contrast, there's no iron ore—just scrap—and the electric furnace in which it's cooked can produce molten steel in a little less than two hours. The molten steel is then poured immediately through casting molds, cooled and hardened by water, in a process known as "continuous casting." That skips the ingot phase and, consequently, the need for two rollings. After the steel is cast, it can be rolled immediately into the final product.

Since continuous casting does not preclude the use of iron ore, it is at least theoretically as accessible to the integrated steel mills as it

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is to mini-mills. But the advantages of continuous casting did not become obvious until the last decade, with the result that the newer mini-mills were able to take advantage of the new technology, while big steel, which cut back on capital investment in the seventies, did not. (The average age of the machinery at an integrated mill is 22 years as compared to 9.4 years at a mini-mill.) The amount of steel produced through continuous casting in the United States since 1971 has increased less than 20 percent—and is disproportionately concentrated in the mini-mills—while the Japanese have increased the use of continuous casting by nearly 60 percent.

Free coffee

Superior technology is one reason the mini-mills maintain such an impressive level of productivity. The average production for a steelworker in the United States is 350 tons a year. In Japan, it's 850. At Chaparral, the average employee churns out 1,300 tons a year—and that is expected to increase. Chaparral produced nearly one million tons of steel this year.

But technology isn't the whole story. The "us" versus "them" mentality that drove big steel into a deadlock between management and labor is largely absent at Chaparral; instead there's a sense of shared commitment, sacrifice, and pride. "Don't call us steelworkers," one Chaparral veteran says, "we're Chaparral people"—a statement that would mark one as a hopeless patsy to management in many of the steel plants up north.

Every Chaparral person I talked with had that same sense of collective pride. "I want to be the best roller out there," Neil Parker told me. "And I'm sure every other roller feels the same way. I want this to be the top steel mill in the world." You see signs of this spirit as you walk through the plant. In the administrative offices hangs a picture of about 40 workers sitting on a new furnace, with the inscription, "Chaparral Steel Company, World Record, October, 1982—67,888 tons cast." A worker bragged to me about a letter that the company president wrote complimenting him for breaking a shipping record. Work crews compete to be the most productive. Michael Oliver, a pulpit operator, told me, "It's just like being on a football team. I love it."

How has Chaparral sparked that kind of competitive spirit in its people, to the point that the plant runs at 89.1 percent capacity, compared to 60 percent for much of the steel industry? The commitment certainly doesn't come from the pay scale. At about $15 an hour, workers make less than they might in union steel mills or other industries. Indeed, the fact that there hasn't been a pay raise at the plant for the past two years has led to some carping among workers at Chaparral. But the complaint doesn't have quite the hard edge you'd find elsewhere. One reason is the absence of the sort of stifling seniority rules, common at other big steel mills, that guarantee a promotion to the person who's been around the longest, regardless of whether somebody else with less seniority can do the job better. At Chaparral, promotions are based on merit. The result: workers are motivated to make a better effort, rather than just put in their time.

Another reason is that everyone from the president on down has a share in 6 percent of the company's pre-tax profits. The profit-sharing is distributed on a sliding scale that comes out to between 9 and 20 percent of wages.

In addition to giving workers a share in the outcome, Chaparral gives them a major share in the decisions. Decision-making is pushed all the way down to the shop floor—and with only four layers of management, that's not all that far. (By comparison, U.S. Steel until recently had 11 such layers; now it has eight.) Workers aren't just encouraged to to try out their ideas for improving productivity; it's considered part of their job. "We don't have a suggestion box around here," Beach said. "If somebody's got a suggestion, they either do it or tell us what they need to do it."

Executives may make the recommendations to foremen for potential employees, but it's the foremen who make the final hiring decisions. After all, it's the foremen who work with the crews. Similarly, when out-of-state customers have a complaint, production employees with hands-on familiarity with the product are flown out with the sales people to look into the problem and see what can be done to correct it. When they return, they use what they've learned to help make changes that will keep the problem from recurring.

The result is a working environment that is largely free of hierarchy. There is no executive parking. Training classes and foreman/worker meetings take place in the corporate boardroom. The chief of the janitorial crew dictates his letters to the president's secretary. The executive offices are located in the plant's locker room building. There are no time clocks. Everyone is on a first-name basis. Everybody gets free cof-

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fee in the morning. Gordon Forward, the company president and a refugee from big steel bureaucracy, had always found it "amazing" that at most companies "management could have free coffee and there was some second-class citizen who couldn't, or there was some second-class citizen who had to park outside the gate or punch a time clock because we didn't trust them." The trust pays off: absenteeism at Chaparral is about 2 percent compared to an industry average of roughly 6 percent.

Faith in the workers' competence is absolute. When Chaparral was designing the medium section mill that it built in 1982, it pulled mill managers off the floor and asked them what they thought they needed. Innovations for the mill came from the managers, who told the engineers the specifications they believed necessary for efficient production. The result was a mill made of German and Japanese technology, with a few parts that were pure Chaparral.

Homemade construction

Another key to Chaparral's high morale is that no employee has ever been laid off. In December 1981, thanks to soaring production, managers figured that there were about 40 more employees than they needed to fill the orders at hand. But instead of laying people off, Chaparral put them to work. The company was just completing construction of its medium section mill through a contractor. Chaparral polled its employees concerning their experience in construction. The outside contractor was sent home and Chaparral's own crew of steelworkers was put to work with hammers and saws to complete the new plant.

Small wonder efforts to unionize the mill failed. In 1977 the United Steelworkers led a union drive that was soundly rejected: with 98 percent of the workers voting, 73 percent cast their ballots against unionizing the plant. Among the workers I spoke with, there was unanimous agreement that keeping the union out was a key factor in the plant's productivity. Joe Barcevac, a former worker at U.S. Steel's South Works plant in Chicago, told me, "At the other mill I was stuck in a craft line. I couldn't help somebody in a different job, and he couldn't help me. That was because of the union. Here we do what we have to to get the job done."

In fact, it's hard to find anybody at Chaparral who has anything good to say about labor unions—that is, until you walk over to the management offices. Their main suspect for the

Nazis in Skokie

Donald Alexander Downs

Frank Collin, American Nazi leader:

"I've got to come up with something within the law, to use the law against our enemy, the Jew . . . I used it [the First Amendment] at Skokie. I planned the reaction of the Jews. They are hysterical."

In 1977, a Chicago-based Nazi group announced its plans to demonstrate in Skokie, Illinois, the home of hundreds of Holocaust survivors. The shocked survivor community rose in protest, and the issue went to court, with the ACLU defending the Nazis' right to free speech. The court ruled in the Nazis' favor. According to the "content neutrality doctrine" governing First Amendment jurisprudence, the Nazis' insults and vilification were "neutral"—not the issue, as far as the law was concerned.

But to Downs, they are at issue. In *Nazis in Skokie* he challenges the doctrine of content neutrality and argues for the minimal abridgement of free speech when that speech is intentionally harmful. Drawing on his interviews with participants in the conflict, Downs combines detailed social history with informed legal interpretation in a provocative examination of an abiding tension between individual freedom and community integrity, and between procedural and substantive justice.

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steel industry killer? Management. "I think the attitude taken by other companies is unnecessarily adversarial," Beach told me. "If they treat their employees like units, then of course they'll band together in a union. But if they treat the union like an adversary, they're guaranteed a stalemate." Forward agrees. "If you treat your employees like a number," he said, "then you deserve a union."

Mountains of scrap

In 1960, the minis were to big steel what competitors were to Ma Bell—inconsequential and on the fringe. There were only 10 to 12 minis taking up about 2 percent of the steel market. But since then the mills have exploded onto the scene, with more than 50 producing approximately 14 million metric tons of steel per year. It is now estimated that the minis may capture as much as 40 percent of the American steel market by the year 2000.

It's ironic that this success story is attributable in no small part to big steel's smug attitude during its heyday. Protected from the free market to which they professed their devotion, the big companies set their prices as though it were manifest destiny that American steel would always be number one. Steel was a classic oligopoly, with the United States Steel Corporation, the unchallenged industry leader, determining the price structure of the entire industry. But to avoid the searching eyes of the trust busters, U.S. Steel made certain that its prices wouldn't put other, less efficient companies out of the market. So the industry protected its noncompetitive members through a price structure that enabled these companies to stay in the black. In effect, this kept the entire steel industry only as competitive as its least efficient producer.

Throughout the 1950s, steel prices were grossly distorted. Despite slumping demand, they increased an average of 5.8 percent annually throughout the decade, compared to 2 percent for wholesale products, according to the Bureau of Labor Statistics. As any smart capitalist should have known, that price umbrella made the appearance of more efficient, more productive mills almost inevitable.

The minis' boom during the 1970s was fueled by two factors. One was the increasing demands of the United Steelworkers. From 1969 to 1981 labor costs rose an average of 11.6 percent a year, helping to price the big companies out of many of the markets that the minis were all too eager to snatch up. The second factor was the technological advances that were propelling foreign companies into a competitive position with big steel. By adopting these new technologies, mini-mills significantly lowered their capital costs in relation to big steel's. In 1980 the Office of Technology Assessment showed how big those differences in costs could be. In 1978 dollars, the estimates range from $154 to $320 per metric ton of annual capacity for a mini-mill as compared to the $956 to $1,500 for an integrated plant.

A further factor is the cooperative style of management so evident at Chaparral and other mini-mills. The profit-sharing plans, employee stock opportunities, scholarship programs for the workers' children, and the like are akin to the cooperative practices used so successfully in Japan. In fact, one of the most successful mini-mill companies, Nucor Corporation of North Carolina, embraces the principle of lifetime employment.

The particular niche that the mini-mills found—conversion of scrap steel into new steel products—brought scorn from big steel. "They're in what we call the junk end of the business," one executive told *Fortune* back in 1978, "and they can have it." But the same article noted that, thanks in large part to the efforts of big steel over the last couple of generations, there are 2.3 billion tons of steel sitting out there—more than ten tons for every man, woman, and child in America—and all of that is potential scrap for the mini-mills. It's especially delicious to consider that every foreign automobile that rolls off the docks is another potential morsel for the electric furnaces. For technical reasons, the minis at present are unable to make sheet steel, which keeps them out of a substantial portion of the market right now. But at least one mini-mill company—Nucor—has already begun to explore this area.

None of this is good news to the shell-shocked steel executives demanding government bailouts or to their counterparts at the Steelworkers union. The trim mini-mill bureaucracy, with its salary levels sharply below those of big steel, may not appeal to the execs—any more than the blue-collar wages and high productivity standards appeal to the Steelworkers. And the prospect of abandoning their adversarial positions for some form of cooperation seems equally distasteful to both. But with mini-mills like Chaparral popping up, it's clear that there *is* a healthy steel industry in this country. ■

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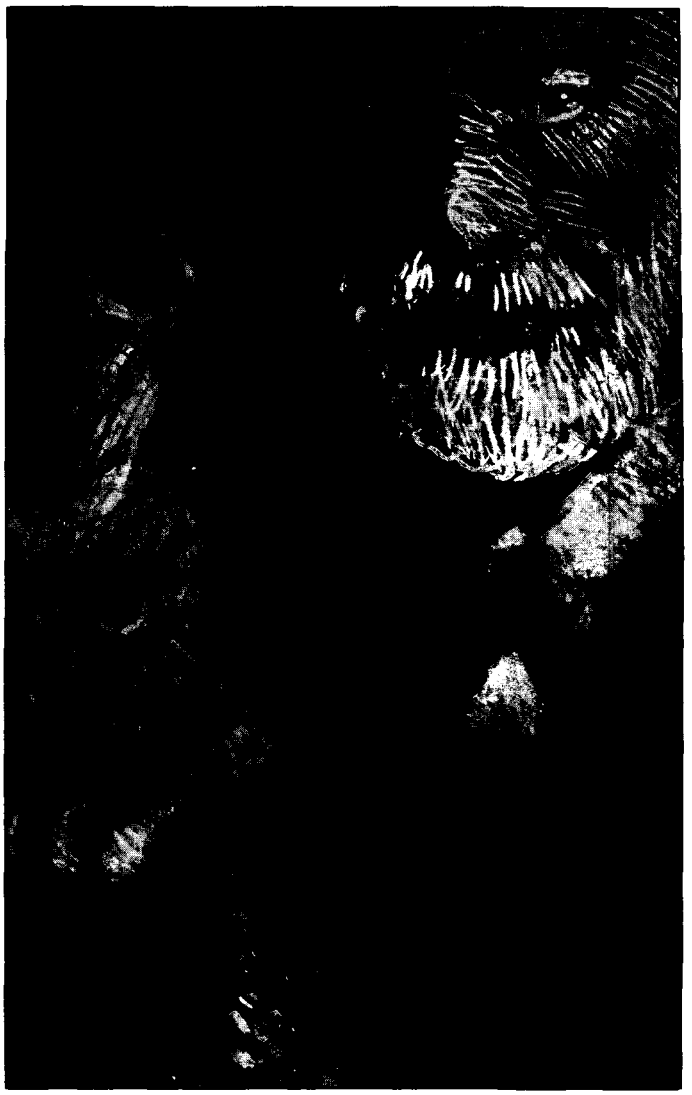
Psychologists won't really understand human nature until they come to grips with altruism.



How Psychology Sanctions the Cult of the SELF

by Michael Wallach and Lise Wallach

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One great benefit our commercial culture will provide to posterity is an abundance of clues as to the focus of our concerns. Anthropologists of future centuries will have a seemingly inexhaustable vein of books with titles such as *Looking Out for Number One* and *The Art of Being Selfish* to brood over, along with a torrent of magazine articles on ways to outmaneuver your colleagues and even your spouse. Should any display racks from supermarket checkout lines survive, these future anthropologists will know more about the dread afflictions of cellulite and heavy thighs than we know of the early Christian church.

Perhaps you've wanted to shake your fist in anger at the authors of the how-to-stomp-your-colleagues genre and ask them, "What about the other guy?" Perhaps you've silently lectured the editors of the checkout-line glossies on how they should give a little more thought to the millions on this earth who would love to have a "problem" like ample thighs. But while we fume over the perpetrators of pop psych self-absorption, we might ask whether the more authoritative psychology profession is not also to blame.

For what appear to be the excesses of *Self* magazine and EST are not off-the-wall aberrations; they are grounded in the most respectable psychological theory of this day. It was not Michael Korda who wrote, "The only question which matters is, 'Am I living in a way which is deeply satisfying to me, and which truly expresses me?' " It was Carl Rogers, the clinical psychologist and widely published author, who, according to one recent survey, "heads by far the list of those who have the greatest influence on counseling and psychotherapy."

As members of the psychology profession, we view this tendency among our colleagues with great alarm. Through books and college courses, this image of humanity—of what we are and ought to be—is spread broadly through the culture at large, giving sanction and impetus to the more popular varieties of the narcissistic gospel. Leaders and opinion-makers, along with others in our society, turn for guidance and counseling to proponents of this same basic mindset. What further concerns us is the way the message of mainstream psychology—in both its academic and clinical modes—often leads people away from the sources of happiness and satisfaction they so desperately seek. There is much evidence that these may depend in large measure on assuming responsibility for one another and seeking goals outside ourselves—the very things which the pop-psych tracts and their scholarly sources are discouraging. The outlook on life to which the profession is giving sanction—expressed in both individual therapy and the culture at large—may be making our psychological problems worse.

Selfish altruists

For different reasons, most current approaches in psychology give sanction to the idea that self-seeking is not merely an inclination, but the essence of our nature.

Take, for example, the writers on "interpersonal relations." Were you to plow through these voluminous writings, you would learn that the model for human behavior is the penurious merchant of Adam Smith's England, whose single-minded aim was to get as much as he could and to give as little. The best life preparation would seem to be a course in contract law. Harold H. Kelley and John W. Thibaut, leading authors in the field, tell us that we should always condition our commitment to the welfare of others, and to values such as justice, upon the likely returns to ourselves. "Being considerate of other persons' needs and helping them attain their goals," Kelley and Thibaut write, "will often be found necessary in order to obtain the cooperation from them that the individual desires." There's no reason beyond that for being considerate because values have no value apart from what they produce in return. "The functionally optimal rules," they write, "are highly contingent."

Since something like friendship is not important for its own sake, but for what it produces in return, we must always keep an eye on the balance sheet. "When we give unconditionally without any returns," warns Ervin Staub in *Positive Social Behavior and Morality*, "what we give loses value." Caryl E. Rusbult, in an article on "romantic associations," extends this analogy to investment strategy a step further. "High investments and/or poor alternatives may sometimes serve to 'trap' the individual in an unhappy, unsatisfying relationship." The governing idea, in short, is that we should do unto others as they have done unto us.

The so-called "social learning" theorists like

Michael A. Wallach is a professor of psychology and Lise Wallach is a lecturer in psychology, both at Duke University. This article is based upon their book, Psychology's Sanction for Selfishness, *published by W.H. Freeman and Company, New York, 1983.*

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Albert Bandura write in a similar vein, arguing that all we care about in a given situation is what's in it for ourselves. You are concerned about a suffering friend? Trace all the wires back, he argues, and you will find that you really are concerned about what that friend's suffering might imply for yourself—that he might treat you less kindly, for example. To the extent we do act altruistically, it's for social approval; internal standards of conduct—such as not killing people—are simply ways to ward off trouble with the authorities.

Even the so-called "liberal" academics, who question both social learning theory and psychological dogma in general—along with the indvidualism that flows from it—can't seem to break away from the premise that self-interest must be the ground base of all human motivation. Eleanor Maccoby, for example, rejects the view that infants become attached to their caretaker merely because that person relieves their personal distresses such as hunger. So how does Maccoby explain this attachment? By positing the parent as the "agent" who helps the infant master its environment. The child can't feel affection, in other words, unless it receives something in return. Maccoby rejects one form of self-centeredness only to exchange it for another.

Similarly, in Maccoby's view, acquiring social skills means mastering bargaining ploys. As children grow up they gain the skill "to tailor their actions for different audiences, depending on the nature of the social self that they wish to project." Generosity becomes a way to cut the best deal. We learn to act unselfishly by "weighing future gains against present ones."

Maccoby acknowledges that a good family life requires more. "When a sense of mutual sharing exists," she writes, "bargaining or dominance of one member's objectives over another's becomes less important." But she can offer nothing from the realm of psychology to help families move in that direction. Because she keeps self-interest as the basic psychological building block in social relations, she has nowhere to turn other than the contractual balancing of interests that she senses as missing the point.

When students study psychology in college, views like these come across in their texts. Selfishness, students learn, is what makes the world turn. A typical introductory text by Roger Brown and Richard J. Herrnstein, *Psychology*, counsels that values are not really values at all. "A person who has learned to accept some social values will be rewarded, or not punished, by serving them," they write. "He is still acting selfishly. . .but the selfishness will have been harnessed to some part of the collective judgment." Brown and Herrnstein put quotes around the word "social" when explaining people's actions, the way *Pravda* might put quotes around the word "democracy" in reference to the U.S.

Or take the social psychology text by Albert A. Harrison, which enlightens college students on the important subject of dating and marriage. "The choice of a partner," Harrison writes, "represents a trade-off in which both persons get the best they can with what they have to offer." It does sound a bit like boxing promoter Don King negotiating with CBS Sports. And if a better deal comes along, why not trade upwards?

Whether the propagation of such views in the mantle of academic authority has nudged the divorce rate upwards, nobody can say for sure. But interviews conducted by students in our classes show that students do absorb this cynicism. "Doing something for other people is gratifying needs in yourself, otherwise you wouldn't do it," said one of those interviewed who seems to have paid close attention to his texts. "There is a part of me that needs to believe that altruism is alive and well, especially in me," said another. "But there's also a cynicism—something like altruism can't exist." Here is a student who wants to believe in his own capacity for generosity, yet the teachers and their textbooks discourage him from doing so.

Darkness within

Growing alongside academic psychology has been clinical practice, most notably psychoanalysis. Sigmund Freud began his work towards the end of the nineteenth century, when the empirical sciences, in their high noon of promise, were going to unlock all the mysteries. Previously, questions of human behavior had been the realm of religion and moral philosophy. Basing his theories totally upon biology, Freud pulled the rug out from under these, claiming their ground, so it was then thought, for empirical science.

Freud became the classic iconoclast. To Victorians who wouldn't even mention bodily functions—let alone sex—in polite society, Freud declared that their lives were governed by these very things, the most unmentionable in particular. "All the emotional relationships of sym-

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Psychology has legitimized a self-centered view of humanity that not only damages society but also leads people away from the very happiness they seek.

pathy, friendship, trust, and the like, which can be turned to good account in our lives," he wrote, "are genetically linked with sexuality and have developed from purely sexual desires." Those noble sentiments of which the Victorians were so enamored—indeed, altruism itself—were, in Freud's view, indistinguishable at their roots from a good tumble in the hay.

According to Freud, everything we do serves ultimately one of two biological functions: to rid ourselves of unpleasant external stimulation, such as cold, or to make use of what's outside us to satisfy an internal need, such as—he would say—hunger or sex. The basic model is of a psyche churning with "libidinous" drives, and the health of the organism lying in their release. "All instincts which do not find a vent without turn inwards," wrote Nietzsche, of whom Freud was an avid student. "The whole inner world burst apart when man's external outlet became obstructed." Freud saw that we sometimes need to "sublimate" such energies into, say, work or the arts, or accept restraints upon them, for the good of society. But such restraints were fundamentally at odds with our nature—not with just part of our nature, but with all of it. An excess of restraints cause the energies to "turn inwards" producing neurosis.

Two main streams of clinical theory have challenged Freud's theory in fundamental respects. But where each might have countered the emerging culture of selfishness, they both ended up giving even more legitimacy to this culture than Freud had.

The neo-Freudians like Harry Stack Sullivan, Karen Horney, and Erich Fromm thought that Freud had been much too pessimistic in his assessment of human nature. Horney, for example, disagreed strongly with Freud's view that "there is no liking or disliking of people, no sympathy, no generosity, no feeling of justice, no devotion to a cause, which is not in the last analysis determined by libidinal or destructive drives." Our actions can arise not just from bodily needs and urges, she maintained, but from concern for others, a desire for justice, and the like. Since we *can* hold such concerns outside ourselves, the neo-Freudians might have seen the potential of both external restrictions and internal standards of conduct in furthering those ends. Having abandoned Freud's biological basis, they had no remaining reason to regard such prescriptions as fundamentally hostile.

But they did regard these prescriptions as hostile, even more than Freud had. Horney deplored the "tyranny of shoulds" which "impair the spontaneity of feelings, wishes, thoughts and beliefs." The neo-Freudians rejected social prescriptions not because we were so bad, as Freud had thought, but because we were so good. If we were only freed of such restraints and left to get sufficiently in touch with ourselves, the result would be beneficial both for ourselves and others. Horney castigated the "whip of inner dictates" and declared that she wanted the individual "to dispense with [them] altogether."

The neo-Freudians approached the individual psyche a little the way free market conservatives view the economy. Governmental and other restraints are the problems, and if we just let everybody do their own thing, it will all work out in the end. These neo-Freudians were therapists working with individual patients rather than social problems—patients who, for the most part, had strong internal values to begin with. In the background, moreover, was Stalin's Russia and the rise of Nazi Germany, in which Goebbels was calling upon the German nation to "submit the I to the thou" and the "individual to the whole." In this context there seemed compelling reason to focus on the self as the bulwark of human freedom. "'Don't be selfish' becomes one of the most powerful ideological tools in suppressing spontaneity and the free development of personality," said Fromm, who was himself German. Neo-Freudians like Fromm did not urge selfishness; to the contrary, they said that truly loving yourself did *not* mean striving for pleasure, material gains or success. But they did romanticize the self, seeing it as Rousseau's noble savage, and did not sufficiently appreciate that darkness comes not only from without—in the form of a Hitler—but from within as well.

If the neo-Freudians romanticized human

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nature, then the humanistic psychologists like Carl Rogers and Abraham Maslow were positively dewy-eyed. Where the neo-Freudians had attacked external restraints and prescriptions, the humanists attacked *all* forms of influence or determination outside the self. Each man and woman is not a "piece of the continent," as Donne wrote, but "an island unto himself, in a very real sense," said Rogers, "and he can only build bridges to other islands if he is first of all willing to be himself and permitted to be himself." Autonomy was the absolute; the crucial goal of therapy, as of life, was "to be that self which one truly is," as Kierkegaard had said—or, as Maslow and Rogers themselves put it, to "self-actualize."

Rogers cited with approval the decline of institutions—"government, the military, the church, the corporation, the school"—because these were sources of external determination that prevented us from being ourselves. He regarded with favor the decline of conventional marriage as well. Those who choose to live together without it "simply believe that a partnership has significance only if it is a mutually enhancing, growing relationship." Of the healthy individual, Rogers said, "He is unlikely to make any commitment for all of his life because he knows he cannot predict himself that well."

Actualizing the individual "may sound as though it were a selfish or unsocial criterion," Rogers wrote, "but it does not prove to be so, since deep and helpful relationships as experienced is actualizing." Rogers, like the neo-Freudians, simply took for granted that the "self-actualized" individual would do naturally what was benevolent and good.

It is time to ask whether these teachings of the psychology profession are rooted in science—in empirical evidence—or whether they are based instead on ideology and predilection. Further, we need to ask whether these teachings serve to heal, both individually and collectively; or whether seeking personal happiness directly, as they tend to counsel, only makes that goal more elusive.

Change partners

Freud served an important role, stripping away the pretense and hypocrisy of the Victorian era and demonstrating that people need to come to grips with the beast in themselves. But he led psychology astray in portraying all motivation as derived from bodily needs, with the implication that in the core of our being we are self-serving beyond redemption, and only gamesmanship and external restraints can hold us in check.

Where Freud saw all motivation arising from the organism, pressing outward like steam from a boiler, subsequent research showed that the process often works the other way around—that what we do is often a response to something *outside* us, without reference to bodily needs. This is so even in the Freudian heartland of sex, the urge for which can arise less from "somatic" tension than from the presence of a suitable partner. Laboratory animals (not to mention certain movie stars and politicians) will copulate to exhaustion with one partner, then show renewed interest when a new partner is made available. Ethologist Irenaus Eibl-Eibesfeldt presents a fair amount of evidence that even the way adults show affection for one another derived in evolution from the way they have cared for their young, rather than vice versa as Freud had maintained. There is a *social* basis to behavior; and if to sex, why not to other areas of life?

Then too, there was research into what are called "cognitive" and "motor" processes. In humans and other species, the development of skills like perceiving, grasping, exploring, speaking, seem to some degree to have a life of their own, apart from bodily needs. Monkeys, for example, will learn to solve a mechanical puzzle for no reason other than the chance to look through a window. Babies show sheer delight in learning to use their voices, in grasping and rearranging objects.

More important, *sociability* generally—getting along with others—seems to stand as a motive on its own. Young lambs, for example, will form attachments to collies on the other side of a fence—the kind of attachment they would normally show towards the ewe—and become agitated if separated, even though there is no bodily contact, let alone "need reduction" involved. Young monkeys reared together in the absence of a mother form bonds of attachment to one another of the kind they would normally show towards a mother. What is perhaps most impressive of all is the evidence of an innate capacity for we-thinking that seems to reside in both humans and other species, alongside whatever other tendencies may be found. When monkeys reared in isolation were put together with a group of younger monkeys, they huddled in corners, at which point the younger monkeys went and clung to the isolated ones. Soon the

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isolates were hugging back, and before too long they became a normal part of the group. Farley Mowat, the Canadian writer, tells of whales swimming abreast a wounded third, carrying it to safety—an observation made by many others, and recently by Steve Whitehouse, a New Zealand fisheries officer, as reported last March by Reuters. "It was fantastic," Whitehouse said. "They were taking turns in supporting him and when one got tired, another whale took over."

There is also evidence of such inclinations in very young children. Those barely over a year old will bring their mother to help a friend in distress and offer that friend their teddy bear and security blanket. A two-year-old girl will kiss and put a bandage on her mother's bruised finger. Those who recall holding a baby brother or sister just brought home from the hospital have perhaps experienced similar feelings themselves.

Freud was influenced by Darwin, but even in the great march of evolution, it is genes that survive, not individuals. Behavior like that just described, generous in the root sense of the word, is thus totally consistent with Darwin's theories. Is it not possible, even likely, that evolution has equipped us to act cooperatively—generously—as well as in a self-centered fashion?

Subway civility

Observations of this sort have not gone unnoticed in the world of psychological theory. But that world has responded a little the way the astronomers did long ago when confronted with evidence that the earth revolves around the sun. This evidence challenged the geocentric theory which, in line with Church dogma, held that the earth was the center of the universe. To save this theory, astronomers devised more and more convoluted "epicycles" to account for the new evidence without giving up the geocentric assumption. Just so, we believe that modern psychologists have concocted their own epicycles to save their egocentric theory—that a narrow sense of self is at the center of all motivation and behavior.

It was not hard to do: just replace biological needs with psychological ones. Cognitive and motor skills were explained by needs for "novelty" or "mastery." Social involvement was accounted for by needs for "security," "approval," and the like. Whenever the physical or social environment seemed to pull the organism to do

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things, needs for the self were always posited as being served. All this to preserve the Freudian assumption of egoism even though the profession had abandoned the biological premise that made this assumption necessary.

Typical of this mindset is David C. McClelland's moving portrait of his mother-in-law, a strong, warm, impressive woman, who was active in improving race relations, in the peace movement and in counseling, while giving emotional support to her large family. Even in her eighties, she wrote that teenagers "just keep calling me up and telling me they want to come over and talk." A devout Quaker, she firmly believed that the resources and strength of which she gave so generously came to her directly from God.

McClelland attributes this remarkable woman's character—with no slight intended—to a "need for power": it is nothing but "the most advanced stage of expressing the power drive." Mothers-in-law just can't win.

Nor, it appears, can anybody else. Once the psychologic mind locked onto the egoistic assumption, it couldn't seem to let go. These psychologists even take evidence that seems to point in the opposite direction and use it to confirm their case. Take, for example, the 1969 experiment in the New York City subway in which a man would stagger and collapse to the floor of a car. Fellow passengers came spontaneously to the victim's aid 80 percent of the time. In almost every case in which the passengers didn't offer assistance, the victim had been made to appear drunk, but passengers helped in many of those cases anyway.

Given the level of civility that normally prevails in New York City's subways, such a study could be encouraging evidence that an innate capacity for altruism does exist. How did the researchers interpret the responses of the subway-riders? "A selfish desire to rid oneself of an unpleasant emotional state." (The authors later revised this "model" somewhat, but it remained essentially the same.) Conditioned to find a cynical basis for people helping one another, such researchers become incapable of seeing anything else.

They generally don't even *look* for anything else. In the subway study, for example, the variable that the researchers tested was the "cost" to the bystander of providing help by making some of the victims appear drunk. What the researchers *didn't* do was put the shoe on the other foot and vary the cost to the *victim* of not receiving help; to show, in other words, the victim in varying degrees of distress, to see whether our generosity can increase not in accordance with our own internal calculations of benefit, but in accordance with another's need. One team of researchers conducted just such a study, and discovered that drivers in a campus parking lot were more likely to give a stranger a ride to a town five miles away if the situation seemed to be an emergency (64 percent helped) than if it did not (45 percent helped). What mattered here, apparently, was the need of the recipient, and not the driver's calculation of cost to him or her self. Yet on the whole, the psychology profession has framed its studies to give such possibilities short shrift.

Traditional psychologists cannot adequately account for why the people of the French Protestant village of Le Chambon risked annihilation by the Nazis in order to shelter Jews.

Traci and Steve

Freud, along with academic psychologists like these, erred on the side of cynicism. Tracing back all motivation to "needs," whether biological or otherwise, they acknowledged nothing but narrow self-interest from which behavior might arise. The neo-Freudians and the humanistic psychologists, by contrast, saw the potential side of human nature. Rescuing man from the Freudian doldrums, in which life and culture were at best an uneasy truce with the bottom-line libidinous drives, they sensed the heights to which humanity might rise. "It is as if Freud supplied to us the sick half of psychology," Maslow said, "and we must now fill it out with the healthy half."

But the humanistic psychologists did more than fill out the healthy half. They seemed to forget about the dark side completely. Freud at least had seen the value of social prescriptions and constraints in enabling people to get along with one another. Where he erred was in seeing these as essentially hostile to people, rather than

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as a form of training wheels by which their better instincts might be supported and flourish. Rather than developing this theme, the humanists came to oppose prescriptions, constraints and social institutions almost totally.

The result, which they did not intend, was to give the culture of selfishness an even bigger boost than Freud himself had done. Ultimately it may be true that the kingdom is within. But the humanists seemed to forget the desert experience, the temptations, the inner wrestlings and worse, that it took to realize that state. They wanted the resurrection without the cross. What's more, they neglected the need for social norms and props while we are in that wrestling stage—if not for our own sakes, then at least for the sake of others. Without these, the quest for "self-actualization" can become—as it often does—an excuse for self-absorption.

For healthy individuals, said Rogers, "doing what 'feels right' proves to be a competent and trustworthy guide to behavior which is truly satisfying." Which is fine in theory. But what happens when what is "truly satisfying,"for you is in conflict with what is satisfying for—or needed by—someone else? Take a mother who is an artist. She finds child care fulfilling, but painting even more so. Maslow and Rogers imply that she should attend to her own maximum development and pursue artistic work regardless of whether equally attentive arrangements can be made for her children. They would say that the woman probably would be a bad mother if her personal development were jeopardized. ("I love my work. I wouldn't be a good mother if I didn't keep myself happy," was how Meryl Streep, the actress, explained her decision to return to work several weeks after the birth of her first child.) That may well be true in some cases. But should we not at least be open to the possibility that providing for our children's "actualization"at a crucial time in their lives might take priority over our own—might, in fact, be what we ourselves most deeply want?

Consider the latest fad among some fast-track professionals in Los Angeles— taking high school girls as girlfriends. Writer Benjamin Stein chronicled in *The American Spectator* one such relationship between Traci, 16, "a pretty little girl, with long black hair and a tiny button nose and big brown eyes,"and Steve, who is a hot property in his 150-lawyer law firm. Traci's parents don't really show a great deal of interest in her life. When she takes up with Steve she tells them, as a cover, that she has gotten a part-time job at his law firm. "Traci's Dad did not really have time to dwell on the subject for too long because he was just starting to take up 'heavy hands' jogging. . .," Stein relates. "Mom was at a meeting of wives who wanted to start a stock club, so she did not hear about it at all." Might this be one legacy of self-actualization?

Or take marriage, where the Maslow-Rogers prescription similarly is that self-actualization is the primary concern. Rogers believes that "a relationship between a man and a woman is significant, and worth trying to preserve, only when it is an enhancing, growing experience for each person." A couple "cannot hold to (the vows of commitment) unless the marriage is satisfying," Rogers writes. "The value of such outward commitment appears to me to be just about nil." But isn't unconditional commitment—a determination to go the last mile—a part of making the marriage satisfying in the first place? And suppose a partner becomes ill and needs our help so that the union demands more of us than it appears to give back? Time to pack the bags and check out? Are people who act that way the ones we most admire?

Or take the broader realm of social commitment and concern. An individual finds it self-actualizing to be a lobbyist for commodity speculators or polluters. It's challenging and broadening, and involves lots of free travel and opportunities for professional "contacts." End of question? Don't we need to think about such things as the wise use and fair distribution of the earth's resources, and the availability of socially constructive roles rather than ones that are useless or frivolous? And what about institutions—like governments and marriage—about which Maslow and Rogers have little to say except to lament the way they interfere with our self-actualization. Might not they serve a social function even if sometimes inconvenient?

Certainly there are times when we cannot be genuinely useful to others until we attend to our own needs—for instance, the mother who grinds her emotional axes on self-sacrifice and suffocates her children with attention in the process. But it is hardly always the case that we serve others best by serving ourselves first. Our world should be "primarily a means to the person's self-actualizing ends," Maslow says. Though Maslow didn't intend it, can you see how short the distance can be between such an attitude and the pages of *Self* magazine?

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Maslow and Rogers were primarily concerned, of course, with the welfare of the individual, not society at large, and for this they felt that freedom and autonomy in development were essential. But they seem to have confused freedom and autonomy with a preoccupation with oneself. We can autonomously aim at goals outside ourselves, or embrace Horney's tyrannical "shoulds" without losing our freedom in doing so.

Sometimes, for example, we subject ourselves—freely—to the influence of others, such as a music teacher or a track coach, or undertake the obligations implicit in a team, a work-setting, or a personal relationship. The neo-Freudians and humanists might talk about the importance of "spontaneity" and doing what "feels right," but real development is usually gained more through sweat. Anthony Trollope recounts in his autobiography his life rules. Writing was for Trollope a sideline profession, and so, he said, "I found it expedient to bind myself by certain self-imposed laws," such as being "at my table every morning at 5:30" and producing a definite number of words every week. (More tyrannical shoulds!) "I have been told that such appliances are beneath the notice of a man of genius," he wrote, but "nothing surely is so potent as a law that may not be disobeyed."

If such prescriptions are necessary for individual achievement, might they not also be useful for social well-being? The difference between a musical composition and noise, between a game and random activity, between a dance form and flailing about, implies a sensitivity and adherence to rules. The goal then is not to be free of all prescriptions and restraints. We should fight those that go against what we really value but embrace those that are conducive to what we seek to advance, such as truth, art, kinship, and community.

Healing from without

It is part of folk wisdom, and of the healing traditions of many cultures, that one path out of our own problems lies in dwelling upon them less. In the healing rituals at Lourdes, one writer observed, "the emphasis is on self-forgetfulness and devotion to the welfare of others. The pilgrims pray for the sick and the sick for each other, not themselves." In one Japanese religious sect, participants in therapeutic sessions "stand facing each other and pray that one another's unhappiness will diminish." A 63-year-old Guatemalan Indian woman suffering from depression is asked by the healer to make elaborate preparations for a large feast to occur during her curing session.

Respectable opinion today tends to denigrate such practices as the quaint vestiges of religion and superstition. Yet it's just possible that practices like these are rooted in a psychological truth that today's healers—the clinical psychologists and psychiatrists—tend to overlook. A number of practitioners are convinced that encouraging ever more attention to the self, as psychiatrists and psychologists are doing, has become a part of the problem.

Viktor E. Frankl, a psychotherapist, is an example. Interred by the Nazis at Auschwitz and Dachau, Frankl found that what kept himself and other inmates going was a sense of purpose outside themselves. Frankl helped deter fellow prisoners from suicide by stressing such commitments. In one case, it was scientific work to be completed; in another, it was the prisoner's child waiting safely elsewhere. What proved helpful was not getting "in touch" with their true feelings, but regaining a sense of connection with something larger than themselves.

While most in the profession invite patients to dwell upon their problems, Frankl believes that patients probably do too much introspecting about their symptoms and feeling states already. His aim is to move patients out of their self-involvement. For a husband with a problem of impotence, for example, Frankl may reduce his self-preoccupation by the benign ruse of ordering him and his wife for the sake of treatment to have no intercourse but to fondle each other naked in bed. Freed of his obsessive attention to his impotence, and attending instead to his wife, the patient may report sheepishly that he couldn't stop intercourse and had experienced an orgasm despite the doctor's instructions.

Similarly, Alfred Adler would get an insomniac to stop fighting his insomnia and spend the time constructively, planning what to do for others the next day. Deprived of its grip on the patient as a central focus of concern, the insomnia may pass. This therapeutic insight is a central part of Alcoholics Anonymous. Members of A.A. undertake a personal commitment to help fellow alcoholics through participation in weekly meetings, "Twelve Step Calls," and working with new members for whom they take responsibility. Helping others stay off the bottle assists them in doing so themselves.

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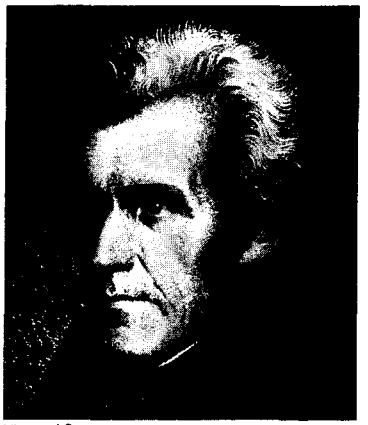
Dept. of the Army

David Levine ©1966 The New York Review



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A number of therapists have noted the correspondence between effective healing therapies like these and traditional religious values. Karl Menninger, for example, concluded from his clinical experience that therapy is beneficial to the extent it encourages people to reach out to others in ways commonly associated with religion. "The goal of all the great historic religions can be summarized as being the overcoming of one's self-love," he observed.

Despite the prevailing culture of self-seeking and the sanction this culture receives from the psychology profession at large, we still encounter daily acts of generosity and kindness that, like the sapling growing from the crack in the rock, ought to give us hope.

We read, for example, of the retired man who takes it upon himself to make sure the stray cats in the neighborhood are fed. One day he is beaten about the head by a psychotic woman; rather than wait for medical attention, he goes home to make sure the stray cats get their dinner. We read of kidney donors who explain their act as a triumph of good over bad in themselves. "It gives me inner satisfaction," one explained. "When I have moments of depression, I think of my sister. I am happy." Or take the blood donors surveyed in Britain, nearly 80 percent of whom cited concern for others as the motive for their deed. "No money to spare. Plenty of blood to spare," noted one who had given blood 19 times. "Knowing I mite be saving somebody life," wrote another.

The only thing extraordinary about such occurrences is that the psychology profession doesn't take them more seriously. Mainly, it seeks to diminish them into veiled expressions of self-concern. The old man, psychologists might say, was really trying to assuage his own feelings of guilt—a form of self-indulgence. The kidney and blood donors were acting from a similar motive, or perhaps to feel holier-than-thou. Examine altruism closely enough, they say, and you'll always find the canker of self-interest.

But as we have seen, that view has no more basis in science than it does in everyday experience. It is crucial that we as a society come to realize this. Our values do not exist in a vacuum. The prevailing culture encourages the good in us or the bad. It is not naive to suggest that we can do more to encourage altruism rather than accept selfishness as the inescapable core of our nature.

It is well-demonstrated, for example, how young people can be influenced by the prevailing values in their families. Studies of the most committed civil rights activists during the sixties found that they were more likely than their cohorts to have parents who had shown just such social commitment during their children's formative years. We-thinking can be nurtured just like me-thinking can—and if in families, why not in the culture at large? There are numerous examples in our own past of such values being fostered on a broader scale. The early New England settlements were built around a "common"—Boston Common is a present-day reminder—on which everyone could graze their cows. In this and other ways, the economy was connected to the idea of community as well as to individual striving. More recently we have seen the ethnic enclaves in America's older cities, where interconnected webs of churches, businesses and extended families assure that everyone is taken care of.

The tailor's parable

People do not feel any special virtue in such settings. Helping simply becomes part of the way people act. On occasion, a culture such as this can rise to the heights of heroism, as when the people of the French Protestant village of Le Chambon risked annihilation by the Nazis during the Second World War in order to shelter Jews. As Protestants in a Catholic country, their ancestors had endured centuries of persecution, and almost instinctively the Chambonnais came to the aid of others who suffered this fate. "Things had to be done, that's all, and we happened to be there to do them" was one typically matter-of-fact explanation. That selflessness can come to seem ordinary and mundane is itself a telling point against those who persist in giving sanction to greater indulgence of the self.

An old tailor in his eighties once recalled what had given him the most satisfaction in his work: enabling the poor people in his neighborhood to buy well-constructed clothing that would keep them warm. "A coat is not a piece of cloth only," he explained. "The tailor is connected to the one who wears it and he should not forget it." Our colleagues in the psychology profession should not forget it either. They should encourage more thinking about the people who will wear the coat—those affected by our daily thoughts and actions—and less about how we feel while making it, or about the personal rewards. ■

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TIDBITS AND OUTRAGES

●

The Pentagon supplemental budget request will include $255 million for new TEACs

During a speech at the Ethics and Public Policy Center in Washington last fall, Caspar Weinberger inserted into his prepared remarks a response to former Defense Secretary Harold Brown's charge that the administration's star wars proposal is a "pipe dream." Weinberger said that the star wars plan was in fact "well within our technological, scientific, productive and inventive genius." When a reporter asked for a copy of this statement, the Pentagon press office said that it could not make one available because the tape recorder had broken down during the speech.

◆

The supply-side answer to those empty hospital beds

"Going to a hospital could be dangerous to your health, according to new studies indicating that thousands of Americans die each year from infections they catch in hospitals or from undergoing surgery or other treatments at the hands of inexperienced doctors.

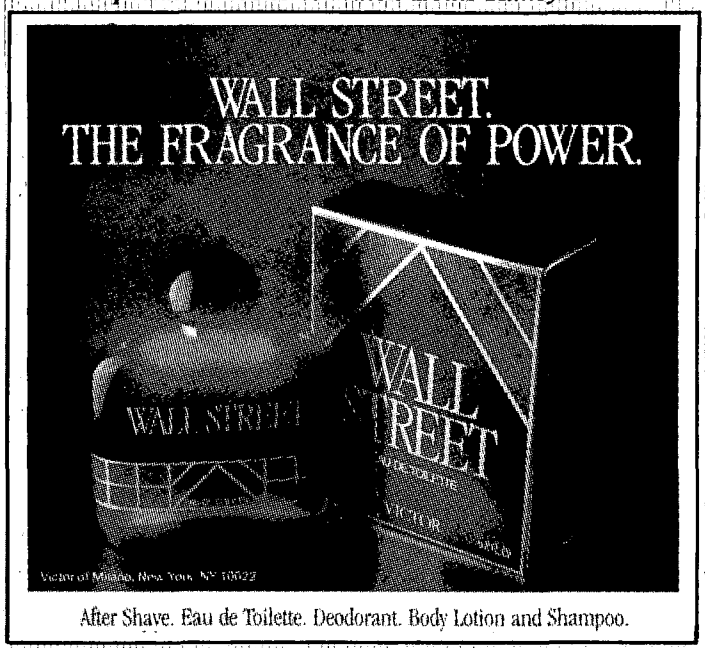
"Hospital-acquired infections, which are linked to 100,000 deaths a year, affect an estimated 5 percent to 10 percent of patients.

"The latest results of the National Nosocomial Infections Study by the federal Centers for Disease Control in Atlanta show that one in every 20 patients acquires an infection in the hospital. In 1983, nearly 40 million Americans were hospitalized.

"A Senate subcommittee report in 1974 estimated that 12,000 deaths a year were linked to surgery and drug reactions, a number that has probably increased. . . ."

—Ronald Kotulak
The Oregonian

Ideal for when you cuddle up with that special someone to watch Louis Rukeyser



◆

One of the white dummies has filed a reverse discrimination suit

The Federal Aviation Administration recently purchased 75 dummies for a crash test of a Boeing 720. The first batch delivered was white and was installed at the front of the plane. When the second batch arrived, it was black, and the only available seats were in the rear. The FAA then moved several white dummies to the back and replaced them with several black dummies.

◆

In retaliation Constantin Chernenko ordered the destruction of a six-pack of Michelob

"As darkness fell, a stranger with a Russian accent delivered a carefully wrapped package to the gatehouse of the Washington Navy Yard.

"As the man departed Wednesday evening, wary guards subjected the package to inspection by bomb-sniffing dogs, who signaled that the contents were 'hot.' An X-ray machine revealed 'two liquid-filled canisters,' according to an investigative report.

"The 67th Explosive Ordnance Disposal team of the Military District of Washington, summoned to the scene, destroyed the package with 'a small explosive device.'

"Examining the remains, two soldiers discovered that they had detonated two bottles of the Soviet Union's finest vodka."

—Fred Hiatt
Washington Post

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POLITICAL BOOKNOTES

CETA: Politics and Policy, 1973-1982. Grace A. Franklin, Randall B. Ripley. *University of Tennessee Press, $24.98.* Geraldine Ferraro, in her first speech after the election, stoutly denied that she and Walter Mondale lost because they were the apostles of free-spending liberalism. "Read the speeches," she insisted. "We didn't call for massive new federal jobs programs. . . ." You can almost hear the scorn in Ferraro's voice—what could be more pathetically outmoded than for a Democrat to believe in federal jobs programs? Such is the sorry legacy of CETA, the most recent and perhaps final substantial national effort to alleviate unemployment. Born as a Nixon-era experiment in creative federalism, dramatically expanded under Jimmy Carter, and bluntly terminated by Ronald Reagan, CETA may well be remembered as the last gasp of the New Deal. Between 1975 and 1983, the federal government spent a total of $55 billion on the diverse jobs and training programs lumped together under the unwieldy government title of the Comprehensive Employment and Training Act. At its peak in 1978-79, CETA created about 725,000 public service jobs and was spending roughly another $5 billion a year on training programs.

Just five years later, CETA has been reduced to an epithet. With unemployment still about 7 percent, virtually no one mourns the death of most federal jobs programs. Why did CETA fail so flamboyantly? Or, if CETA did not actually fail—and there's evidence to support this view—why is it remembered as one of the classic excesses of liberalism gone amok? These are important questions as we grope to understand the continuing popularity of the Reagan revolution. But such grand thematics are beyond the scope of this densely written, but nonetheless superficial survey by two political scientists. Franklin and Ripley, alas, are primarily concerned with the narrow questions of federalism inherent in CETA—particularly the relationship between the federal government and the "prime" local sponsors who actually administered the program. The authors are to be commended for undertaking hundreds of interviews at the local level to try to unravel the tangled mystery of CETA. But the narrowness of their concerns destroys the value of this extensive research. There are no quotes, no illustrative anecdotes, and no original findings about the effects of CETA on the unemployed. Instead, the book is little more than a series of assertions buttressed by "multivariant regression analysis." This leads to such epic conclusions as, "federalism in action creates both confusion and opportunities in the implementation process." After $55 billion, CETA—and the liberal dream it embodied—deserve a far better epitaph.

—Walter Shapiro

Secret Agenda. Jim Hougan. *Random House, $19.95.* It's hard to believe that another book about Watergate could be relevant, but this one is engaging and often surprisingly fresh. Hougan puts forth that the burglary which eventually caused Nixon to walk the plank was ordered not, as commonly believed, by the White House to eavesdrop on Democrats but by different parties for different reasons.

The sheer weirdness of Nixon risking all for inside information on Democratic National Committee Chairman Larry O'Brien, considering that Nixon was nearly certain to win, has always been rationalized as a product of the paranoid mood of the times. It's necessary to recall just how strange that mood was. In the early 1970s the FBI and CIA were operating with open contempt for each other. J. Edgar Hoover was

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LeRoy Collins, governor of Florida from 1955 to 1961, ally of the Kennedys, and spokesman for Southern moderates, illustrates in his career the tensions of the fifties and sixties that transformed the American South. Hardbound, illustrated. Available in March. $22.50.

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dying, making the FBI unstable, and the CIA was being torn apart by its internal mole-hunts, led by James Angleton, who would himself later stand accused of being the mole. (Suspicions raised and morale lowered during the mole hunt ultimately led to the sacking of Angleton and CIA director Richard Helms, and to the mid-1970s agency purge.) The CIA had recently been showered with high-level Soviet defectors who might or might not be genuine, and was still tinkering with its most far-fetched Manchurian Candidate mind-control theories. Meanwhile at the White House Henry Kissinger was spying on his own aides, and Admiral Thomas Moorer, chairman of the Joint Chiefs of Staff, was in turn spying on Kissinger. An amazing number of top military officers believed that Kissinger, architect of detente and overlord of Vietnam strategy, was literally a Russian agent. In 1971 the Pentagon Papers were published, leading to the creation of the Plumbers, whose job was to plug that leak. But as the source was almost immediately revealed, the Plumbers had to think of other projects to justify their continued existence. Then, in the month preceding the June 1972 break-in, Hoover died and George Wallace was shot. In such an environment Nixon employees might well have run wild.

But, Hougan points out, might not others have been running wild as well? In brief, he presents a substantial (though not conclusive) case that Howard Hunt was not working for Nixon at all, but was still answering to his old firm, the CIA, planted, in fact, to spy on the White House. Hunt with his ill-fitting red wig has always been played in the press as a bumbler. Suppose that was part of Hunt's act?

Hougan recites the ever-intriguing fact that the D.C. police officer who actually made the Watergate arrests appears to have been tipped—possibly by someone who was intending to make the CIA, not Nixon, look foolish. The officer, a former employee of the National Security Agency, had volunteered out of the blue to work the graveyard shift that fateful night even though he had already worked a full shift, and then parked his patrol car by the Watergate.

Another event, which occurred in early June 1972, was the headline news that a D.C. grand jury was investigating a political call-girl ring that appeared to come as close as the real world ever has to the type of high-class hooker domes depicted in TV mini-series. Capitol Hill secretaries and a female White House lawyer were being provided to congressmen and other big shots. The ring was said to be based in the Columbia Plaza apartments, a block from the Watergate, and many fun-filled calls were placed through a phone in DNC headquarters that had been set up as a private line. That phone, Hougan maintains—not O'Brien or McGovern—was the burglars' real target. They wanted dirt on any Democrats who might be involved, and also advance warning if anyone in the White House was going to be implicated. (When caught, the burglars were on their fourth, not first, entry into the complex.) In turn, Hougan suggests, information from the taps was destined primarily for the CIA, not the White House.

Considering the extent to which intelligence services have traditionally used hookers to trap agents and politicians (supposedly, U.S. agencies don't anymore), Hoover's bizarre obsession with sex files, and the general inclination at the time toward half-baked psychological experiment, this explanation of the break-in is not as far fetched as it may seem. The only aspect genuinely hard to swallow is that the CIA got away with it: in the last decade the agency has seemed so incompetent that it couldn't spy on its own shadow, let alone keep its role in one of the most investigated events of all time disguised. But we can't simply rule out the chance, however remote, that the CIA actually got away with something.

If Hougan's contentions are true, what does it mean? Not as much as the author would suggest. An

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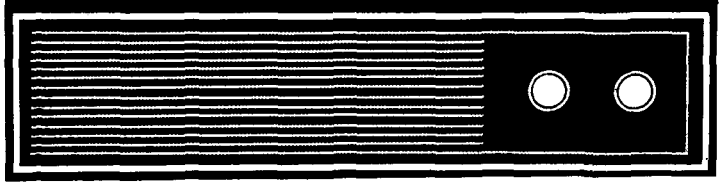
otherwise calm book is marred by his attempt to overhype the notion that "our recent history is a forgery" because the true motives of the burglars are not certain. Hougan has an infuriating habit of implying that he has a more sensational story than he is telling but that he is just too responsible to report it without having nailed down every last detail. That Nixon knew of White House involvement and methodically lied about and tried to cover that involvement up, is still the most important issue—and would have been most important even if (assuming Hougan's right) all burglary facts had come out quickly.

Yet the failure to nail down the burglary story keenly demonstrates an aspect of institutional Washington culture. Obviously, it was in the Democrats' interest to accept at face value the explanation of the break-in, since that painted Nixon as rotten to the core. If, instead, the burglars had been inspired by forces beyond Nixon's control, the president, however improbably, could have been seen as partly a victim, not a villain—duped by those creepy spooks. Hougan notes that the press, which also rapidly embraced the political-bugging explanation, likewise had a stake in promoting it. If all signs pointed to Nixon, the story would have maximum glamor and headline appeal. Moreover, it could be reported from the White House press room—each day Ron Ziegler would have some screwball new denial to squirm through—and Senate hearing rooms, meaning a maximum amount of drama for a minimum amount of work. (And, for television, lots of dramatic pictures.) Grilling the president himself would have far more career-making potential than painstakingly piecing together the conflicting accounts of a bunch of third-rate burglars, which Hougan deserves considerable credit for doing.

—Gregg Easterbrook

More than 85% of American television viewing time is spent watching ABC, CBS, or NBC programs. Yet, for over forty years, the FCC has been trying to minimize the dangers of broadcasting monopoly. The authors of this objective study—all participants in a recent FCC network inquiry—conclude that it is the very regulatory measures imposed by the FCC that inhibit competition, program diversity, and localism. They propose a less intrusive system of regulation that would encourage the formation of new networks by lowering entry barriers rather than by restricting commercial practices.



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Small World. David Lodge. *Macmillan, $15.95. Small World* is a hilarious novel about people wasting their lives going to conferences. "The modern conference resembles the pilgrimage of medieval Christendom," explains the author in a prologue, "in that it allows the participants to indulge themselves in all the pleasures and diversions of travel while appearing to be austerely bent on self-improvement." And, "Today's conferences have an additional advantage over the pilgrims' of old in that their expenses are usually paid. . . ."

Lodge, a professor of English at the University of Birmingham (England), is concerned with academic conferences. *Small World* begins with a small, rather grim conference at a British "red brick" university modeled after his own and ends with the gargantuan MLA (Modern Languages Association) extravaganza at the New York Hilton. In between, there are conferences in Hawaii, in Jerusalem, at a villa in northern Italy, and elsewhere. Then there are government-subsidized traveling lectureships and similar distractions to assure that the modern academics have no time for reading or writing.

—Michael Kinsley

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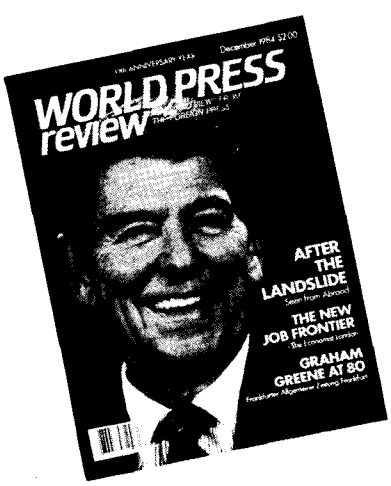

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